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Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING
ADMINISTRATION



RECOVERY ACT: OUTCOMES FROM ON-THE-JOB TRAINING NATIONAL EMERGENCY GRANTS

This audit was performed by McBride, Lock & Associates, under contract to the Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Elisat P. Lewis

Assistant Inspector General for Audit

Date Issued: March 25, 2014
Report Number: 18-14-001-03-390

BRIEFLY...

Highlights of Report Number 18-14-001-03-390, issued to the Acting Assistant Secretary for Employment and Training.

WHY READ THE REPORT

The American Recovery and Reinvestment Act (Recovery Act) of 2009 was intended to preserve and create jobs, promote the nation's economic recovery, and assist those most impacted by the recession. The Recovery Act provided the Department of Labor (DOL) with an additional \$75 million for On-the-Job Training (OJT), National Emergency Grants (NEGs). DOL awarded funds to 45 grantees: 41 states, the District of Columbia, and 3 Native American tribes.

This report discusses the Department's efforts to expand OJT using Recovery Act funds and the extent to which those efforts resulted in successful outcomes for program participants. The report offers two recommendations to improve DOL's efforts to ensure grantees are properly administering their OJT contracts.

WHY OIG CONDUCTED THE AUDIT

We conducted a performance audit of the use of Recovery Act OJT NEG funds administered by the Department of Labor's (DOL) Employment and Training Administration (ETA) to answer the following questions:

- (1) Did the grantees ensure that Recovery Act funds were properly administered and awarded, and that eligible participants were served?
- (2) Were participants trained and placed in employment, and did they continue employment?
- (3) Were employers properly and accurately reimbursed for training?

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/2014/18-14-001-03-390.pdf>.

March 25, 2014

RECOVERY ACT: OUTCOMES FROM ON-THE-JOB TRAINING NATIONAL EMERGENCY GRANTS

WHAT OIG FOUND

While participants achieved outcomes that met or exceeded expectations, ETA could strengthen controls to better ensure grantees' OJT contracts comply with policy requirements and grantees obtain adequate documentation to support payments to OJT employers.

Our validation of participant outcomes found that 78 percent of sampled participants completed training, 72 percent obtained employment, and 84 percent were still working in the second and third quarters after first becoming employed. These entered employment and employment retention rates exceeded the entered employment and retained employment rates reported by ETA for the overall WIA Dislocated Worker program in Program Year 2010 (July 1, 2010 – June 30, 2011).

The audit did identify opportunities for ETA to improve its administration of OJT grants. The OJT contracts with employers we reviewed were not consistently designed or implemented according to guidelines established by ETA, resulting in questioned costs totaling \$86,754. Additionally, grantees' lack of adequate documentation or sufficient review of employer reimbursement requests resulted in an additional \$275,513 of questioned costs.

WHAT OIG RECOMMENDED

We recommended the Acting Assistant Secretary for Employment and Training require grantees to follow ETA guidance and ensure OJT contracts are designed in compliance with the terms and conditions of the grant, including documentation requirements; and recover \$362,267 in questioned costs, as appropriate.

The Acting Assistant Secretary for Employment and Training stated that ETA currently requires grantees to comply with OJT requirements, but ETA will consider OIG's recommendation when producing new or updated guidance and technical assistance for state and local workforce areas and when monitoring grantee activities.

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SUITE 900
1111 MAIN STREET
KANSAS CITY, MO 64105
TELEPHONE: (816) 221.4559
FACSIMILE: (816) 221.4563
EMAIL: Admin@McBrideLock.com
CERTIFIED PUBLIC ACCOUNTANTS

McBRIDE, LOCK & ASSOCIATES

March 25, 2014

Independent Auditor's Report

Eric Seleznow
Acting Assistant Secretary
for Employment and Training
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, D.C. 20210

The American Recovery and Reinvestment Act (Recovery Act) was signed into law by President Obama on February 17, 2009. The Recovery Act was intended to preserve and create jobs, promote the nation's economic recovery, and to assist those most impacted by the recession. The Recovery Act provided an additional \$75 million¹ for On-the-Job Training (OJT) National Emergency Grants (NEG) to temporarily expand the program at the state and local levels. The Employment and Training Administration (ETA) awarded these funds to 45 grantees: 41 states, the District of Columbia and 3 Native American tribes. Grantees had until June 30, 2012, to spend these funds. On August 6, 2010, ETA issued *Training and Employment Guidance Letter (TEGL) 4-10* to states and local workforce areas on implementation of the OJT NEGs funded with the Recovery Act. ETA provided special policy guidelines for OJT NEGs for this one-time funding opportunity. McBride, Lock & Associates, under contract with the Department of Labor's (DOL) Office of Inspector General (OIG), audited the use of Recovery Act funds provided for OJT NEG for the period from June 30, 2010, the inception of the grant, through the end of fieldwork.

We conducted a performance audit of the use of Recovery Act OJT NEG funds administered by ETA to answer the following questions:

- (1) & Did the grantees ensure that Recovery Act funds were properly administered and awarded, and that eligible participants were served?

¹ The allocation provided to the grantees is outlined in Exhibit 1.

- (2) Were participants trained and placed in employment, and did they continue employment?
- (3) Were employers properly and accurately reimbursed for training?

To conduct this audit we interviewed officials at ETA, employees from the selected grantees and sub-grantees, and sampled participants and their OJT employers. The sample of 9 grantees included 8 states and 1 federally-recognized Native American tribe. A statistical sample was then selected of the sub-grantees at each of the selected grantees, of which 36 total sub-grantees were reviewed. We selected a statistical sample of 377² of the 1,055 participants enrolled with the selected grantees and sub-grantees at September 30, 2011. The audit fieldwork concluded in August 2012, which allowed for adequate time to pass in order to confirm entered employment and retention for the majority of the participants.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our objectives, scope, methodology, and criteria are more fully detailed in Appendix B.

RESULTS

Overall, the grantees had sufficient controls to ensure eligible participants were served. However, the OJT contracts with the employers were not consistently designed and implemented. Our validation of participant outcomes found that 78 percent of sampled participants completed training, 72 percent obtained employment, and 84 percent were still working in the second and third quarters after first becoming employed. According to ETA officials, these entered employment and retention percentages for the long-term unemployed exceeded ETA's expectations that were based on other ETA programs and the ramp-up needed to bring the program online.³ Finally, certain grantees did not require payroll support for employer reimbursements and did not adequately review reimbursement requests to ensure compliance with the terms and conditions of the grant agreement.

² The sample of participants by grantee and sub-grantee is outlined in Exhibit 2.

³ ETA officials stated the entered employment and employment retention rates exceeded overall WIA Dislocated Worker PY2010 entered employment and employment retention rates of 57.3 and 81.9 percent, respectively. These rates were not audited.

A. Grantees ensured service providers served eligible participants. However, service providers did not ensure compliance in the design and implementation of on-the-job training contracts.

Grantees had sufficient internal controls in place to ensure that sub-grantees and service providers enrolled only eligible participants. To determine if only eligible participants were served, we statistically selected 377 of 5,895⁴ participants from 9 of 45 grantees and tested for eligibility compliance. Only 1 of the 377 participants selected in our sample was found to be ineligible because they had been employed prior to accepting an OJT position. Based on our results, we projected 5,880⁵ (99.8 percent) eligible participants were served under this program.

Regarding service provider compliance with the design and implementation of OJT contracts, we reviewed 369 Recovery Act OJT NEG training contracts to determine whether the contracts were structured and put in place in accordance with the terms and conditions of the grant. The terms and conditions of the grant and TEGL No. 4-10 outline the requirements for the OJT contracts. The sub-grantees and service providers were allowed to develop and implement their own contracts for the grant, which resulted in inconsistencies of the terms and conditions in the OJT contracts. There were 225 exceptions noted in 139 of the 369 contracts reviewed.

The service providers entered into contracts with local employers for each participant receiving on-the-job training. Issues were identified in the selection of the employers and the execution of the written contract. We identified 53 contracts issued between the service provider and the employer that did not ensure the employer's responsibility for documenting skills gained by the dislocated workers during the training period. Additionally, there were 23 contracts that were either dated subsequent to the training start date or did not include the date of execution, which could indicate the participant was already employed prior to entering into the contract. Further, it could not be assured for 13 contracts reviewed that the service provider adequately evaluated the employer regarding displacement of workers in order to provide an OJT position or adequately evaluated employer size to determine the allowable reimbursement percentage. Lastly, for 3 contracts the hours authorized for training did not agree with the hours determined in the training plan that outlined the specific skills and duration to learn those skills.

For each participant receiving OJT services, a training plan was developed that outlined the skills to be learned by the participant and the length of time needed to adequately train the participant. The duration of the contract was limited to 6 months. Exceptions were identified in the development of those training plans: 51 training plans identified

⁴ 5,895 was the universe initially provided by ETA. Analysis of the participant data provided by the selected grantees and the quarterly performance reports provided by ETA for those grantees not selected as of September 30, 2011 disclosed 5,520 participants were provided OJT services as of September 30, 2011.

⁵ We projected with 95 percent confidence that there were between 5,867 and 5,893 eligible participants with a point estimate of 5,880.

that did not list the number of hours needed to attain each individual skill; 26 training plans that had durations longer than the 6 month duration allowed or in excess of the equivalent of 1,040 hours; 29 contracts where a documented skills gap assessment to determine the appropriate length of time needed for the training plan was not maintained; 24 training plans that did not evidence a participant signature or their acknowledgement of what skills were to be learned during the training program; and 3 participants where the training program did not result in full-time employment as outlined in the grantee directive.

The exceptions identified in the development and implementation of the contracts resulted in \$86,754 in questioned costs. These exceptions may have resulted in inefficient or ineffective training programs. However, we could not measure the impact of the overall efficiency and effectiveness of the program based on the exceptions identified. Further detail of the results and questioned costs are provided in Exhibit 3.

B. Approximately 78 percent of sampled participants completed the training program, 72 percent entered employment, and 84 percent retained employment with OJT employers.

Generally, we found most participants we reviewed (287 of the 369 participants, or 78 percent) completed the training program. To determine training completion, we reviewed participant case files and employer reimbursements to see if the OJT contract was paid in full or if the participant completed training early. Given this sample, we projected 4,478⁶ (76 percent) of participants served completed training. Table 1 below illustrates the training completion by grantee based on our audit.

Table 1			
Participant Completed Training			
Grantee	Participants Reviewed	Completed Training	Completion Rate
California	85	68	80%
Cherokee Nation	11	6	55%
Florida	45	32	71%
Missouri	24	20	83%
New Hampshire	25	19	76%
New Jersey	23	19	83%
New York	60	46	77%
North Carolina	44	31	70%
Washington	52	46	88%
Total	369	287	78%

⁶ We projected with 95 percent confidence that there were between 4,210 and 4,747 participants that completed training with a point estimate of 4,478.

We found 351 of the 369 sampled participants were reported as having exited the program and we verified that 316 of the 351 sampled participants who had an exit date had entered employment. As a result, 316 participants were used as the denominator in the calculation for the entered employment rate. Of the 316 participants, 226 were employed in the quarter subsequent to exiting the program (72 percent).⁷ Because of the timing of our audit efforts relative to the participants' exit dates, we were able to verify that 182 of the 226 sampled participants who entered employment retained employment during the second and third quarter after their exit from the program. As a result, 182 participants were used as the denominator in the calculation for retention rate. Of the 182 participants, 153 earned wages in both the second and third quarters after exit and were therefore considered retained (84 percent).⁸ We projected 3,710⁹ (62.9 percent) of participants served entered employment and 2,624¹⁰ (44.5 percent) retained employment in the second and third quarter after exit. Tables 2 and 3 below illustrate the participant by grantee based on our audit.

Table 2				
Participant Entered Employment				
Grantee	Participants Reviewed	Confirmed Participants Exited ¹¹	Entered Employment	Entered Employment Rate
California	85	64	45	70%
Cherokee Nation	11	11	5	45%
Florida	45	39	22	56%
Missouri	24	17	13	76%
New Hampshire	25	22	17	77%
New Jersey	23	23	14	61%
New York	60	50	40	80%
North Carolina	44	41	28	68%
Washington	52	49	42	86%
Total	369	316	226	72%

¹¹ Of the participants sampled, 351 had an exit date. However, only 316 of 351 could be confirmed through interviews and review of records whether they had entered employment.

⁷ For comparison, ETA provided PY2010 overall WIA Dislocated workers entered employment rate of 57.3 percent. This rate was not audited.

⁸ For comparison, ETA provided PY2010 overall WIA Dislocated workers employment retention rate of 81.9 percent. This rate was not audited.

⁹ We projected with 95 percent confidence that there were between 3,406 and 4,014 participants that entered employment with a point estimate of 3,710.

¹⁰ We projected with 95 percent confidence that there were between 2,278 and 2,971 participants that retained employment with a point estimate of 2,624.

Table 3				
Participant Retention Rate				
Grantee	Confirmed			Retention Rate
	Participants Reviewed	Entered Employment ¹²	Retained Employment	
California	85	24	24	100%
Cherokee Nation	11	4	4	100%
Florida	45	21	15	71%
Missouri	24	13	10	77%
New Hampshire	25	13	13	100%
New Jersey	23	4	4	100%
New York	60	32	28	88%
North Carolina	44	31	23	74%
Washington	52	40	32	80%
Total	369	182	153	84%

¹² Of the 226 participants that entered employment only 182 participants could be confirmed whether they had entered employment based on the timing of audit efforts and the date of exit.

For purposes of Recovery Act OJT NEG reporting, the common measures as outlined in TEGL 17-05 were used for the entered employment rate and the retention rate.

We interviewed participants and employers, and reviewed service provider records to determine the outcomes of the program as they pertain to participant training completion, entered employment, and retention. Standardized interviews were conducted with the sampled participants and their OJT employer to substantiate entered employment and retention rates of the participants. Four attempts were made for each participant and employer to make this determination. Additionally, service provider records were reviewed when possible to further substantiate the outcomes of the program. However, we could not substantiate outcomes for all participants. Accordingly, those participants not substantiated were not considered in the calculation for entered employment and retention.

C. Some employers were not properly and accurately reimbursed for training.

We evaluated employer reimbursements for the participants selected for training hours that occurred prior to September 30, 2011. The employers were required to submit with their invoices timesheets and/or payroll registers to support the training hours incurred. The level of documentation required varied at each of the grantees as well as the sub-grantees and service providers.

We reviewed employer reimbursements for 369¹³ participants, which totaled \$1,370,859, to determine if reimbursements were made to the employers in accordance with guidance provided by TEGL 4-10, grantee implementation plans, and the OJT contracts between the employer and the service provider. The review of the employer reimbursements disclosed instances of improper payments that resulted in questioned costs of \$275,513. The service providers did not have proper controls in place to ensure that reimbursements were made in accordance with the grant requirements and based on actual wages paid to the participant.

The service providers did not maintain adequate documentation for 54 sample participants to support the basis of reimbursement. Documentation was maintained for the number of hours worked by the participant. However, there was no verification of the wage rate paid by the employer through inspection of a payroll register or similar document. This resulted in \$252,040 in unsupported reimbursement to employers.

Reimbursement rates used for payments for 5 participants were not in agreement with the OJT contract or the percentage was higher than allowed by the grantee. This resulted in \$21,635 in excess reimbursements.

Employer reimbursements for 24 participants disclosed that employers were reimbursed for: training hours provided prior to the execution of an OJT contract; non-training or unsupported hours; wage rates in excess of the State average hourly rate; or hours in excess of the number of hours agreed to in the OJT contract. This resulted in \$1,838 in excess reimbursements.

Employer reimbursements for 15 participants disclosed that the documentation maintained to support the reimbursement did not clearly identify the start date of the participant or the number of actual hours worked by the participant.

The exceptions identified in the employer reimbursements resulted in \$275,513 in questioned costs. Further detail of the results and questioned costs by locations are provided in Exhibit 4.

RECOMMENDATIONS

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

1. Require grantees to follow ETA guidance and ensure OJT contracts are designed in compliance with the terms and conditions of the grant, including documentation requirements.

¹³ We tested 377 participants for program eligibility. Eight of the 377 participants tested for eligibility were not further tested because the actual training was initiated subsequent to September 30, 2011. As a result, we tested 369 participant contracts.

2. Recover \$362,267 in questioned costs, as appropriate. This includes making a final determination of unsupported costs and inaccurate payments or overpayments.

ETA Response

The Acting Assistant Secretary agreed with the recommendations and stated ETA currently requires grantees to follow ETA OJT guidance. As ETA continues to encourage the use of OJT, ETA will consider the recommendations when producing new or updated guidance and technical assistance for state and local workforce areas and when monitoring grantee activities. Additionally, ETA will follow the standard audit resolution process and will issue a final determination and seek recovery of any disallowed costs. The Acting Assistant Secretary's entire response is contained in Appendix D.

We appreciate the cooperation and courtesies ETA, grantees, and sub-grantees extended to McBride, Lock & Associates during this audit.



McBride, Lock & Associates

Exhibits

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Exhibit 1

Recovery Act On-the-Job Training National Emergency Grants Awarded

No.	Organization Name	Amount
1.	Agency for Workforce Innovation (FL)	\$ 3,462,110
2.	Alabama Department of Economic & Community Affairs	1,444,144
3.	Alaska Department of Labor and Workforce Development	715,684
4.	California Employment Development Department	9,990,477
5.	Cherokee Nation	850,357
6.	Colorado Department of Labor & Employment	1,137,558
7.	Connecticut Department of Labor	673,776
8.	Delaware Department of Labor	675,544
9.	Department of Commerce and Economic Opportunity (IL)	3,248,780
10.	District of Columbia Department of Employment Services	627,753
11.	Georgia Department of Labor	2,023,944
12.	Idaho Department of Labor	625,535
13.	Indiana Department of Workforce Development	1,318,642
14.	Iowa Workforce Development	990,347
15.	Kansas Department of Commerce	641,903
16.	Kentucky Education Cabinet, Department for Workforce Investment	978,725
17.	Louisiana Workforce Commission	1,415,062
18.	Maryland Department of Labor, Licensing and Regulation	1,971,169
19.	Massachusetts Department of Workforce Development	1,065,670
20.	Michigan Department of Energy, Labor & Economic Growth	3,791,794
21.	Mississippi Department of Employment Security	1,651,549
22.	Missouri Division of Workforce Development	1,284,243
23.	Montana Department of Labor and Industry Workforce Services Division	889,009
24.	Nebraska Department of Labor	534,080
25.	New Hampshire Department of Resources & Economic Development	972,474
26.	New Jersey Department of Labor & Workforce Development	1,477,396
27.	New Mexico Department of Workforce Solutions	354,902
28.	New York State Department of Labor	3,426,727
29.	North Carolina Department of Commerce Division of Employment and Training	3,142,366
30.	Ohio Department of Job and Family Services	3,865,742
31.	Oklahoma Employment Security Commission	652,924
32.	Orutsararmiut Native Council (AK)	286,387
33.	Pennsylvania Department of Labor & Industry	2,697,393
34.	Seminole Nation of Oklahoma	236,668
35.	South Carolina Department of Employment and Workforce	1,327,704
36.	South Dakota Department of Labor	617,040
37.	State Department of Labor and Industrial Relations (HI)	601,873
38.	State of Oregon Department of Community Colleges & Workforce Development	2,119,166
39.	Tennessee Department of Labor and Workforce Development	1,170,677
40.	Texas Workforce Commission	3,524,688
41.	Vermont Department of Labor	293,264
42.	Virginia Community College System	1,498,683
43.	Washington State Employment Security Department	1,960,262
44.	Wisconsin Department of Workforce Development	2,274,814
45.	Workforce West Virginia	490,993
Total		\$ 74,999,998

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Exhibit 2

Selected Sub-grantees and Participants

No.	Sub-grantee	Participants Served	Participants Selected
New Hampshire Department of Resources & Economic Development			
1.	Southern New Hampshire Services, Inc.	90	25
New Jersey Department of Labor & Workforce Development			
2.	Atlantic/Cape May Workforce Investment Board	5	5
3.	Essex County Department of Economic Development, Training and Employment	15	11
4.	Workforce Investment Board of Passaic County	7	7
New York State Department of Labor			
5.	Broome – Tioga Workforce New York	67	25
6.	Cattaraugus-Allegany Workforce Investment Board, Inc.	11	10
7.	Cayuga-Cortland Workforce Investment Board	6	6
8.	Columbia-Greene Workforce New York	14	14
9.	Genessee, Livingston, Orleans, Wyoming Workforce Investment Board	6	6
Agency for Workforce Innovation (FL)			
10.	Workforce Development Board of Okaloosa and Walton Counties	27	11
11.	Tampa Bay Workforce Alliance	4	4
12.	Pasco Hernando Workforce, Inc.	41	11
13.	Workforce Alliance	9	9
14.	South Florida Workforce Investment Board	13	11
North Carolina Department of Commerce Division of Employment and Training			
15.	Eastern Carolina Workforce Development Board	28	11
16.	High Country Workforce Development Board	36	11
17.	Region C Workforce Development Board	96	11
18.	Western Piedmont Workforce Development Board	77	11
Cherokee Nation		38	11
Missouri Division of Workforce Development			
19.	Northeast Missouri Workforce Investment Board, Inc.	3	2
20.	Workforce Investment Board of Southeast Missouri	10	10
21.	St. Charles County Department of Workforce Development	4	3
22.	St. Louis Agency on Training and Employment	10	10
California Employment Development Department			
23.	Golden Sierra Consortium	7	4
24.	City of Los Angeles	59	11
25.	Los Angeles County	67	11
26.	Madera County Workforce Investment Board	20	9
27.	Monterey County Workforce Investment Board	34	11
28.	Northern Rural Training and Employment Consortium	42	11
29.	Pacific Gateway Workforce Investment Network	9	8
30.	City of Richmond	14	11
31.	Santa Cruz County	13	11
Washington State Employment Security Department			
32.	Pacific Mountain Workforce Development Council	34	11
33.	Southwest Washington Workforce Development Council	40	11
34.	North Central Workforce Development Council	44	11
35.	South Central Workforce Development Council	30	11
36.	Eastern Washington Partnership Workforce Development Council	25	11
Total Participants Selected		1055	377

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Exhibit 3

Detail of On-the-Job Training Contract Issues

The issues identified in the design and implementation resulted in 139 contracts with 225 exceptions. Additionally, these exceptions resulted in \$86,754 in questioned costs and are identified by Grantee in Table 3-1. Some other exceptions were identified that did not result in questioned costs and are identified by Grantee in Table 3-2. The detail relating to each exception and the related questioned costs are as follows:

Table 3-1¹⁴										
Inconsistencies of the Terms and Conditions in the OJT Contracts With Questioned Costs										
Grantee	Did not result into full time employment		Contract exceeded Six Months (B)		Skills gap assessment (C)		Authorized additional hours (D)		Totals	
	(A)		(B)		(C)		(D)			
	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount
California	3	\$ 4,661	5	\$ -	11	\$ 17,829	-	\$ -	19	\$ 22,490
Cherokee Nation	-	-	-	-	-	-	1	-	1	-
Florida	-	-	6	-	15	58,588	1	-	22	58,588
Missouri	-	-	1	300	1	3,526	-	-	2	3,826
New Hampshire	-	-	1	-	-	-	-	-	1	-
New Jersey	-	-	1	-	-	-	-	-	1	-
New York	-	-	8	-	1	360	1	176	10	536
North Carolina	-	-	4	1,314	1	-	-	-	5	1,314
Washington	-	-	-	-	-	-	-	-	-	-
Totals	3	4,661	26	1,614	29	80,303	3	176	61	86,754

¹⁴ The table includes contracts with exceptions that did not result in questioned costs. The questioned costs were not provided if the reimbursement occurred for hours trained subsequent to September 30, 2011, or the contract ended prior to completion.

- A. 3 OJT contracts did not result in full-time employment for the participant after the training period. It was noted that 2 of the 3 participants were trained at part-time hours during the training period in accordance with the contract. TEGL 04-10 states the OJT contract should be developed to maximize the potential of trainees to be permanently hired once the training period has ended. Additionally the Grantee, where these contracts occurred, issued a directive stating that the employers selected to provide OJT must be looking to hire the employee full-time after the training term is completed. Employers were reimbursed for training for these part-time employees which resulted in questioned costs of \$4,661.
- B. 26 contracts disclosed the training plan duration as stated on the contract or actual hours worked was in excess of 6 months or the equivalent of 1,040 hours. The OJT duration limit as outlined in the TEGL 04-10 is six months. The hours worked subsequent to the 6 month duration or 1,040 hours resulted in questioned costs of \$1,614.¹⁵

¹⁵ Questioned costs of \$504 for New Hampshire were excluded from this amount as 1 contract was also questioned in Results C. Therefore, total questioned costs for this exception is \$2,118.

- C. 29 contracts indicate the skills gap assessment was not adequately performed in order to determine an appropriate length of training. Workforce Investment Act section 101(31) states that OJT is limited in duration as appropriate to the occupation for which the participant is being trained, taking into account the content of the training, the prior work experience of the participant, and the service strategy of the participant, as appropriate. Without a formally documented skills gap assessment it cannot be assured that previous work history and aptitudes were considered in determining the length of time required for the OJT training contract. It also could not be determined whether the participant was in need of any training for the OJT position. Employers were reimbursed for training that was not documented as required and resulted in questioned costs of \$80,303.
- D. 3 OJT contracts' authorized hours were more than the hours that were outlined for the specific skills in the training plan. WIA section 101(31) states that an OJT is limited in duration as appropriate to the occupation for which the participant is being trained, taking into account the content of the training, the prior work experience of the participant, and the service strategy of the participant, as appropriate. The OJT contracted hours did not consider the hours outlined in the training plan to arrive at an appropriate duration. Employers were reimbursed for hours in excess of the authorized hours and resulted in questioned costs of \$176.¹⁶

Grantee	Did not ensure employers responsibility (E)	Contract Dates (F)	No documentation of employer evaluation (G)	Did not identify hours to attain each skill (H)	Training Plans not signed (I)	Total Exceptions
California	-	7	2	22	-	31
Cherokee Nation	-	-	11	-	-	11
Florida	11	8	-	-	-	19
Missouri	-	-	-	-	-	-
New Hampshire	-	-	-	-	-	-
New Jersey	23	-	-	18	18	59
New York	-	2	-	-	6	8
North Carolina	-	1	-	-	-	1
Washington	19	5	-	11	-	35
Totals	53	23	13	51	24	164

- E. 53 OJT contracts did not ensure the employer's responsibility for documenting skills gained by the dislocated workers during the training period. This is required per TEGL No. 4-10 (5)(D). These instances of non-compliance did not result in questioned costs.

¹⁶ Questioned costs of \$679 for the Cherokee Nation were excluded from this amount as 1 contract was also questioned in Results C. Therefore, total questioned costs for this exception is \$855.

- F. 23 contracts were either dated subsequent to the training start date, or were not dated; the contract is required to be agreed upon prior to the training start date. This is a possible indication that the service provider has not completed their due diligence in ensuring that the contract was structured in compliance with the terms and conditions of the grant. Questioned costs were not determinable.
- G. 13 contracts did not evidence the service provider documented that the employer was evaluated regarding displacement of workers in order to provide OJT positions or the employer size to determine the appropriateness of the employer reimbursement. TEGL 04-10 allows for a sliding reimbursement scale of up to 90 percent based on the employer size or documented skills gap. Additionally, 20 CFR § 667.270 imposes safeguards to prevent WIA participants from displacing other employees. Without proper evaluation of the employers the OJT may result in workers being displaced in order to allow for subsidized employment or the employer may get a higher reimbursement percentage than allowed by the grant terms and conditions. Questioned costs were not determinable.
- H. 51 training plans developed for the participant did not identify the number of hours needed to attain each individual skill. WIA section 101(31) states that an OJT is limited in duration as appropriate to the occupation for which the participant is being trained, taking into account the content of the training, the prior work experience of the participant, and the service strategy of the participant, as appropriate. In order to adequately determine the duration it would benefit the negotiations of the service provider and the employer to identify the number of hours it will take to train for each skill. Questioned costs were not determinable.
- I. &24 contracts disclosed the training plans were not signed by the participant to ensure that the participant is made aware of the skills to be attained during the training period. WIA section 101(31) states that an OJT provides knowledge or skills essential to the full adequate performance of the job. The participant may not be fully aware of the skills to be attained which may lead to an unsuccessful training program. Questioned costs were not determinable.

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Exhibit 4

Detail of Improper Employer Reimbursements

The issues identified in the improper employer reimbursements resulted in 89 contracts with 98 exceptions. Additionally, these exceptions resulted in \$275,513 in questioned costs and are identified by Grantee in Table 4-1. Some other exceptions were identified that did not result in questioned costs and are identified by Grantee in Table 4-2. The detail relating to each exception and the related questioned costs are as follows:

Table 4-1																
Employers Inaccurately Reimbursed for Training With Questioned Costs																
	No Payroll Registers (A)		Excess Wage Rate (B)		Inaccurate Reimbursement Percentages		No Supported Wages (D)		Reimbursed Hours Prior to Start Date (E)		Excess Hours (F)		Paid Holiday and Time off (G)		Totals	
State	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount
California	11	\$ 38,666	3	\$ 189	0	\$ -	1	\$ 36	0	\$ -	0	\$ -	0	\$ -	15	\$ 38,891
Cherokee Nation	10	25,626	0	-	0	-	0	-	0	-	0	-	0	-	10	25,626
Florida	0	-	0	-	0	-	1	12	1	-	0	-	0	-	2	12
Missouri	0	-	0	-	4	21,563	1	452	0	-	1	22	0	-	6	22,037
New Hampshire	22	157,058	0	-	0	-	0	-	0	-	0	-	0	-	22	157,058
New Jersey	0	-	0	-	0	-	0	-	0	-	1	-	0	-	1	-
New York	0	-	0	-	0	-	2	576	0	-	0	-	4	-	6	576
North Carolina	0	-	0	-	0	-	0	-	0	-	0	-	1	68	1	68
Washington	11	30,690	4	-	1	72	0	-	2	395	0	-	2	88	20	31,245
Totals	54	\$ 252,040	7	\$ 189	5	\$ 21,635	5	\$ 1,076	3	\$ 395	2	\$ 22	7	\$ 156	83	\$ 275,513

- A. Timesheets were provided in lieu of payroll registers to support the hours and wage rate of the participant. Without payroll registers or paystubs it cannot be assured that the employer paid the participant and therefore eligible for the reimbursement. This occurred in 54 contracts reviewed and resulted in \$252,040 in questioned costs.
- B. The wage rate used for basis of reimbursement was in excess of the state average hourly wage for certain contracts. TEGL 04-10 states that the reimbursement level is not to exceed a percentage of the state's average hourly wage rate. This occurred in 7 contracts reviewed and resulted in \$189¹⁷ in questioned costs.
- C. The reimbursement percentage used did not agree with the percentage outlined in the OJT contract with the employer or was higher than what is allowable. TEGL 04-10 stated that for the OJT NEGs the negotiated reimbursement percentage may be as high as 90 percent of the participant's hourly wage based on either the employer size or the participant's skills gap. It was noted that 4 contracts at one Sub-grantee were reimbursed at 90 percent. However, the Grantee's OJT policy and implementation plan indicates that the reimbursement is limited to 50 percent to allow for the delivery of more OJT contracts. It was indicated that it was allowed to use the sliding scale up to 90 percent at the beginning of the grant period but was later not allowed without a waiver. There was no written confirmation of this allowance. This occurred in 5 contracts reviewed and resulted in \$21,635 in questioned costs.
- D. The wages reimbursed did not agree with the supporting payroll documentation or were not made in accordance with the contract terms. Instances were noted where the invoices were reimbursed for wage rates that did not agree with the stated rates in the contract or actual wage rates supported on payroll registers. There were instances noted where the employer reimbursement was reimbursed on hours that were not supported by the payroll registers or timesheets. This occurred in 5 contracts reviewed and resulted in \$1,076 in questioned costs.
- E. The employer reimbursements included hours prior to the start of the contract. This would indicate that employment began prior to an authorized OJT contract. This occurred in 3 contracts reviewed and resulted in \$395¹⁸ in questioned costs.
- F. The employer reimbursements included hours in excess of the hours authorized by the contract. This occurred in 2 contracts reviewed and resulted in \$22 in questioned costs.
- G. Payroll records maintained supported that the employer was reimbursed for holiday pay, paid time off, etc. or could not be determined if wages paid included these types of wages. Employer reimbursements should be for only hours and wages earned training and learning the skills outlined in the OJT contract. This occurred in 7 contracts reviewed and resulted in \$156 in questioned costs.

¹⁷ Question costs of \$1,351 for California and \$1,382 for Washington were excluded from this amount as 2 contracts were also questioned in Results A and 4 contracts were also questioned in Results C. Therefore, total questioned costs for this exception is \$2,922.

¹⁸ Questioned costs of \$292 for Florida were excluded from this amount as 1 contract was also questioned in Results A. Therefore, total questioned costs for this exception is \$687.

Table 4-2			
Employers Inaccurately Reimbursed for Training Without Questioned Costs			
State	Unknown Start Date (H)	Unknown Hours on Payroll Records (I)	Total (Number)
California	4	0	4
Cherokee Nation	0	0	0
Florida	0	0	0
Missouri	0	0	0
New Hampshire	0	0	0
New Jersey	0	0	0
New York	1	7	8
North Carolina	0	0	0
Washington	3	0	3
Totals	8	7	15

- H. It could not be determined by the payroll records maintained in the case file if the participant started on or after the contract start date. Without assurance of the start date of the participant it cannot be assured that the OJT contract was appropriately approved prior to commencement. This occurred in 8 contracts reviewed but any questioned costs were not determinable.
- I. Payroll records provided did not indicate the number of hours worked by the participant nor could it be determined if the appropriate number of hours were worked. Without proper payroll documentation it cannot be assured that the employer reimbursements were made only for actual hours trained and that the hours agreed in the training contract were provided to the participant in training. This occurred in 7 contracts reviewed but any questioned costs were not determinable.

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Appendices

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Appendix A

Background

The American Recovery and Reinvestment Act (Recovery Act) was signed into law by President Obama on February 17, 2009. The Recovery Act was intended to preserve and create jobs, promote the nation's economic recovery, and to assist those most impacted by the recession.

In June 2010 ETA awarded \$75 million in Recovery Act funds for OJT NEGs to 41 states, the District of Columbia and 3 federally-recognized Native American tribes. The On-the-Job Training Grants offer a method to jump start reemployment for dislocated workers experiencing prolonged unemployment by enabling employers to create training and job opportunities for these individuals. This was a one-time grant opportunity.

NEGs are discretionary grants awarded by the Secretary of Labor under WIA Section 173 as amended to provide employment-related services for dislocated workers. NEGs are intended to temporarily expand service capacity at state and local levels by providing time-limited funding assistance in response to significant dislocation events. Significant events include plant closures and mass layoffs, as well as other events recognized by the Secretary of Labor under 20 CFR 671.110(f).

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Appendix B

Objectives, Scope, Methodology, and Criteria

Objectives

The audit objectives were to answer the following questions:

- (1) Did the grantees ensure that Recovery Act funds were properly administered and awarded, and that eligible participants were served?
- (2) Were participants trained and placed in employment, and did they continue employment?
- (3) Were employers properly and accurately reimbursed for training?

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We conducted site visits to the ETA National Office in Washington, DC; site visits or teleconferences with five Regional Offices; site visits to selected grantees and sub-grantees; and interviews with participants and employers involved in the program.

The audit included a review of grant documents and data available from ETA, grantees, sub-grantees and service providers. The audit included a statistical sample of grantees identifying 8 States and 1 Native American Indian tribe. The audit also included a statistical sample of 36 sub-grantees. Further, the audit also included a review of case files and structured interviews with a statistical sample of 377 participants enrolled in the On-the-Job National Emergency Grant program as of September 30, 2011. The audit fieldwork concluded in August 2012, which allowed for adequate time to pass in order to confirm entered employment and retention for the majority of the participants. Eight of the 377 participants tested for eligibility were not further tested because the actual training was initiated subsequent to September 30, 2011. As a result, we tested 369 participant OJT contracts.

Methodology

To accomplish our audit objectives, we obtained an understanding of the Recovery Act On-the-Job Training National Emergency Grants. We conducted interviews with ETA officials to gain an understanding of the criteria of the grant; how the Grantees were selected and awarded; and the technical guidance and assistance that was provided.

We statistically sampled the 45 grantees that received these awards and selected 8 States and 1 Native American tribe. We interviewed grantee officials and reviewed the Grantee Implementation Plan and other documents as necessary to gain an understanding of the administration and oversight of the grant awards and how the funds were awarded.

To evaluate program compliance we statistically sampled 36 sub-grantees and 377 participants to determine if the grant funds were used to fund eligible participants and OJT contracts were developed in compliance with the terms and conditions of the grant. Additionally, supporting documentation for employer reimbursements for training received was reviewed to determine the propriety of the reimbursement.

We performed a data reliability assessment to ensure we were receiving complete and accurate information for use in our audit testing. To determine whether data was reliable in relation to fiscal and performance reporting, data was requested from the grantees and analyzed for accuracy and integrity. The participant data received was sufficiently reliable for audit purposes except for the employer reimbursement universe data.

Our sampling plan included the use of statistical sampling to determine participant eligibility and the extent that grantees and sub-grantees had trained and placed participants. Statistical sampling was also used to determine the extent of entered employment and retention at the OJT employer. We could not use statistical sampling to determine the extent of employer OJT reimbursements as we could not obtain sufficient information to establish an OJT universe.

Our sampling plan used three-stage stratified cluster sampling as illustrated below.

- STAGE-1** Statistically selected a sample of 8 states and 1 Native American tribe grantees from a universe of 42 states and 3 Native American tribe grantees;
- STAGE-2** Statistically selected 36 sub-grantees from a universe of 196 sub-grantees;
- STAGE-3** Statistically selected 377 participants from a universe of 5,895 participants enrolled by the 196 sub-grantees identified in stage 2.

We used a random sampling method with stratified design to provide effective coverage of the units. To estimate the characteristics and sample sizes we used a confidence level of 95 percent plus or minus 7 percent.

We also conducted structured interviews with participants and their employers and reviewed participant case files to determine completion of training and entered employment outcomes and to inquire if the program led to continued employment with the OJT employer. The Common Measures Policy outlined in TEGL 17-05 was used to calculate the employment and retention rate.

The entered employment rate was calculated as follows:

Numerator = the number of participants selected in our sample that were substantiated as employed by the OJT employer in the first quarter after the exit quarter.

Denominator the number of participants selected in our sample that had exited the program.

The retention rate was calculated as follows:

Numerator = the number of participants selected in our sample that were substantiated as employed by the OJT employer in both the second and third quarter after the exit quarter.

Denominator the number of participants selected in our sample that were substantiated as employed by the OJT employer in the first quarter after the exit quarter.

A performance audit includes gaining an understanding of internal controls considered significant to the audit objectives, testing controls, and testing compliance with significant laws, regulations and other requirements. This included gaining an understanding of ETA, grantees and sub-grantees written policies and guidance for administration of the OJT NEG funds. We confirmed our understanding of these controls and procedures through interviews and participant file review and analysis. Our consideration of these internal controls would not necessarily disclose all matters that might be significant deficiencies. Because of inherent limitations in internal controls, misstatements or noncompliance may nevertheless occur and not be detected.

Criteria

We used the following criteria to accomplish our audit:

- American Recovery and Reinvestment Act of 2009, dated February 17, 2009
- Workforce Investment Act of 1998, as amended, dated August 7, 1998
- Workforce Investment Act Regulations – 20 CFR 667 and 671, dated August 11, 2000
- Training and Employment Guidance Letter No. 16-03, National Emergency Grant (NEG) Policy Guidance, dated January 26, 2004
- Training and Employment Guidance Letter No. 17-05, Common Measures Policy for the Employment and Training Administration's (ETA) Performance Accountability System and Related Performance Issues, dated February 17, 2006
- Training and Employment Guidance Letter No. 14-08, Guidance for Implementation of the Workforce Investment Act and Wagner-Peyser Act

Funding in the American Recovery and Reinvestment Act of 2009 and State Planning Requirements for Program Year 2009, dated March 18, 2009

- Training and Employment Guidance Letter No. 19-08, National Emergency Grants Funded with American Recovery and Reinvestment Act of 2009 Resources, dated April 30, 2009
- Training and Employment Notice No. 38-09, American Recovery and Reinvestment Act of 2009 On-the-Job Training National Emergency Grants, dated April 12, 2010
- Training and Employment Guidance Letter No. 04-10, On-the-Job Training National Emergency Grants (OJT NEGs) Funded with American Recovery and Reinvestment Act of 2009 Resources, dated August 6, 2010

Appendix C

Acronyms and Abbreviations

DOL	Department of Labor
ETA	Employment and Training Administration
OIG	Office of Inspector General
OJT	On-the-Job Training
NEG	National Emergency Grant
Recovery Act	American Recovery and Reinvestment Act of 2009
TEGL	Training and Employment Guidance Letter
WIA	Workforce Investment Act

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Appendix D

ETA Response to Draft Report


U.S. Department of Labor

JAN 13 2014

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



MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General for Audit

FROM: ERIC M. SELEZNOW 
Acting Assistant Secretary
Employment and Training Administration

SUBJECT: Recovery Act Outcomes From On-The-Job Training National
Emergency Grants Funded Under The Recovery Act, Report Number:
(18-14-001-03-390)

Thank you for the opportunity to comment on the draft report about outcomes associated with the On-the-Job (OJT) National Emergency Grants (NEG). The Employment and Training Administration (ETA) appreciates the Office of the Inspector General's (OIG) audit to document the first major, successful effort of the public workforce system in many years to use OJT to encourage employers to hire workers, particularly the long-term unemployed, and give those workers the opportunity to learn new skills while earning a paycheck.

ETA appreciates the OIG's finding that overall, grantees had sufficient controls in place to ensure that eligible participants were served in the OJT program. While OJT is associated with positive employment and earnings outcomes, in the years leading up to these NEG grants, state and local workforce area use of OJT appeared to decrease. As a result, the system's capacity to develop and implement quality OJT programs diminished. ETA provided extensive guidance and technical assistance to OJT NEG grantees to help them successfully implement the OJT program, including *Training and Employment Guidance Letter 4-10* issued in August 2010. Thus, we are pleased to learn that based upon its sampled items, the OIG projected that nationwide, 76 percent of participants completed OJT and of those, nearly 83 percent entered employment; and of those who entered employment, almost 71 percent were retained.

ETA agrees with the OIG's two recommendations.

Recommendation 1: *Require that grantees follow ETA guidance and ensure OJT contracts are designed in compliance with the terms and conditions of the grant, including documentation requirements.*

ETA requires ETA grantees to follow federal rules and formal guidance in implementing OJT programs, including OJT contracts with employers. As we continue to encourage the use of OJT, we will consider this recommendation as we produce new or updated guidance and technical assistance for state and local workforce areas and monitor their activities.

Recommendation 2: *Recover \$362,267 in questioned costs, as appropriate. This includes making a final determination of unsupported costs and inaccurate payments or overpayments.*

ETA follows the standard audit resolution process at 20 CFR 667.500. If ETA finds any disallowed costs, ETA will work through this audit resolution process, issue a final determination, and seek recovery of the disallowed costs from appropriate OJT NEG grantees.

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Telephone: 1-800-347-3756
202-693-6999

Fax: 202-693-7020

Address: Office of Inspector General
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room S-5506
Washington, D.C. 20210