

**U.S. Department of Labor  
Office of Inspector General  
Welfare-to-Work Competitive Grants Postaward Survey Results**

**Additional Policy and Technical Assistance  
Will Help Achieve WtW Legislative Intent and  
Improve Program Administration**

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## ACRONYMS/ABBREVIATIONS

DHHS	Department of Health and Human Services
DOL	Department of Labor
ETA	Employment and Training Administration
FLSA	Fair Labor Standards Act
JTPA	Job Training Partnership Act
MIS	Management Information System
OJT	On-the-Job-Training
OMB	Office of Management and Budget
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act
QFSR	WtW Competitive Grant Cumulative Quarterly Financial Status Report
TANF	Temporary Assistance for Needy Families
WtW	Welfare-to-Work

## EXECUTIVE SUMMARY

### Background, Scope and Objectives

The Balanced Budget Act of 1997 authorized the Secretary of Labor to provide Welfare-to-Work (WtW) grants to states and local communities to move hard-to-employ welfare recipients into unsubsidized jobs and economic self-sufficiency. The Act authorized \$3 billion for WtW grants in fiscal years 1998 and 1999. Of this amount, approximately 75 percent, or \$2.2 billion, is being distributed by formula to the states and the remaining 25 percent, or \$711.5 million, will be awarded through a competitive grant process. The competitive grants are designed to encourage communities to develop innovative, results-oriented ways to help long-term welfare recipients gain a secure foothold in the labor market. The first round of \$199 million (announced on May 27, 1998) was awarded to 51 competitive grant recipients. The Employment and Training Administration (ETA) administers the WtW program at the Federal level.

We developed a postaward survey guide to assess program implementation for 35 grants awarded during the first round of WtW competition. Our overall objective was to determine whether the grantees had implemented and/or adequately planned for the financial management, program delivery and internal control systems necessary to account for Federal funds and achieve the purposes of their grants. We issued management letter reports to the individual grantees, with copies to ETA, so that corrective actions could be promptly initiated. The ETA has been attentive and responsive to the issues raised during the course of our audit fieldwork.

### Results

**This report summarizes the results of the postaward surveys of the 35 first-round competitive grantees.** Overall, we found the grantees that we reviewed possessed the capability to adequately deliver their WtW competitive grant programs. We have findings regarding financial management systems, policies and procedures and programmatic compliance as follows:

#### Summary Matrix of Findings (Appendix 4)

Financial Management			Policies and Procedures			Programmatic Compliance			
Finding 1			Finding 2			Finding 3	Finding 4	Finding 5	Finding 6
Inadequate Internal Controls Over Cost Limitations	Incomplete/Inadequate Management Information Systems	Inadequate Internal Controls Over Financial Reporting	Lack of Formal Agreement with TANF Agencies	Lack of Formal Eligibility Procedures	Lack of Written Policies and Procedures	Potential Violations of the Fair Labor Standards Act	Non-compliance with the "Work-First" Requirement	Start-up Costs and Venture Capital Appears Improper	Single Unit Billings Circumvent Administrative Cost Limitations
22	11	16	14	12	27	3	5	2	1
63%	31%	46%	40%	34%	77%	9%	14%	6%	3%

The matrix shows the number of grantees related to each finding and the percentage of the 35 grantees surveyed associated with each finding. We believe immediate action is necessary to ensure adequate internal controls govern grantee financial and management information systems and grantee policies and procedures.

Also, we believe certain programmatic issues identified during our fieldwork are at the very heart of WtW program intent -- compliance with the Fair Labor Standards Act (FLSA), adherence to the WtW work-first requirement, use of WtW funds for business start-up operations/venture capital, and allowability of single unit price billings. Because these issues pertain to requirements that also apply to the formula program -- a program three times the size of the competitive grant set-aside -- the potential impact of our findings is magnified. We believe immediate action should be taken to provide definitive guidance to achieve WtW legislative intent and improve program administration.

### **Summary Recommendations**

We recommend that the Assistant Secretary for Employment and Training:

- C issue policy guidance and instructions and provide technical assistance which fully addresses WtW's cost limitations and their applicability to the financial reporting requirements,
- C advise WtW grantees to develop formal written Memoranda of Understanding with local TANF agencies,
- C revise the WtW regulations to specifically include the minimum wage provisions of the FLSA,
- C issue specific policy guidance and instructions which fully define and illustrate WtW's work-first requirement,
- C issue policy that prohibits the use of WtW funds as start-up costs for businesses and capital ventures, and
- C require WtW grantees to report Federal expenditures on an actual cost basis against the prescribed cost categories on the Quarterly Financial Status Report.

### **Agency Response and Auditor's Conclusions**

The Assistant Secretary for Employment and Training stated the agency was pleased with our overall assessment that the grantees reviewed possess the capability to deliver their WtW programs. He also stated that the postaward surveys were helpful in identifying issues needing attention. However, the

agency disagreed with our assertion that ETA's policy guidance **suggests** the number of work hours established by a grantee should be consistent with local TANF work requirements. The agency's position on required work hours was further clarified by stating: "*The Office of Welfare-to-Work has been careful not to restrict, or in any way define, the number of hours of work required under the Welfare-to-Work program.*" ETA indicated,

*" . . . in the interests of coordination and recruitment of participants from TANF, grantees should be aware of TANF work requirements and take them into account when developing their programs."* The remainder of ETA's response was related to corrective actions being planned or implemented.

We concur with the corrective actions being planned which address our recommendations. Therefore, we consider all of our recommendations, with two exceptions, to be resolved but not closed, pending implementation of corrective action plans. The exceptions are the recommendations to include FLSA wage provisions in approved grant agreements and defining work-first requirements. We continue to believe that the Solicitation for Grant Applications and the Special Clauses and Conditions of the grants should contain FLSA requirements including minimum wage provisions.

Additionally, we believe that ETA's statement quoted above and the policy guidance **do suggest** to the reader that work hours for WtW be consistent with the work requirements established by the TANF agency. Therefore, we continue to emphasize a need to clarify requirements with specific policy guidance and instructions to fully define and illustrate WtW's work-first requirement and to incorporate into program guidance a suggested number of work hours as the basis for meeting the work-first requirement for WtW purposes. ETA's response states, "*. . . the Department will issue additional policy guidance which clarifies and illustrates (but does not define or prescribe a minimum number of hours) WtW work-first requirement.*" ETA's response does not provide sufficient information to permit us to resolve our recommendations. We will carefully evaluate whether the corrective actions taken by ETA fulfill the intent of our recommendations.

## BACKGROUND

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

On August 5, 1997, the President signed the Balanced Budget Act of 1997. This legislation amended certain provisions of the Social Security Act and authorized the Secretary of Labor to provide Welfare-to-Work (WtW) grants to states and local communities for transitional employment assistance to move the hard to employ TANF welfare recipients into unsubsidized jobs and economic self-sufficiency. The Balanced Budget Act authorized \$3 billion for WtW grants in fiscal years 1998 and 1999. Approximately 75 percent, or \$2.2 billion, will be distributed by formula grants to the states with 85 percent being passed through by the states to Service Delivery Areas established under the Job Training Partnership Act (JTPA) program. Approximately 25 percent, or \$711.5 million will be distributed through a competitive grant process which is designed to encourage communities to develop new, results-oriented ways to help long-term welfare recipients gain a secure foothold in the labor market.

The Employment and Training Administration (ETA) published an Interim Final Rule in the Federal Register on November 18, 1997, implementing the Welfare-to-Work grant provisions of Title IV, Part A of the Social Security Act, as amended by the enactment of the Balanced Budget Act of 1997. The first round of \$199 million (announced on May 27, 1998) was awarded to 51 competitive grant recipients.

A majority of first round competitive grants were signed on June 30, 1998, with the period of performance beginning July 1, 1998. Performance periods of the grants range between 18 and 30 months and must be expended within 3 years.

Training for the first round of competitive grantees was held July 7 - 9, 1998. A second request for grant applications was published on April 15, 1998, with responses due by July 14, 1998. The second round of competitive grants were awarded on November 20, 1998, and totaled \$273 million for 75 projects in 44 states, which leaves approximately \$239 million available for additional awards.



## PRINCIPAL CRITERIA

The principal criteria for the WtW program is 20 CFR Part 645, WtW Grants Interim Rule, published November 18, 1997. ETA plans to issue final regulations. Some of the major provisions of this program include the work-first philosophy, how funds must be spent and eligibility under the 70/30 percent provisions. The following is an overview of the major Federal requirements of the program. (See Appendix 1 for more detailed information.)

- C Purpose of the WtW Program
- C Work-first
- C Funds Spent
- C 70 Percent Eligibility Provision
- C 30 Percent Eligibility Provision
- C Mechanisms Must be in Place to Determine Eligibility
- C Allowable Activities
- C Job Placement Contracts or Vouchers
- C Administrative Costs
- C Indirect Costs
- C Information Technology Costs

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

<i>Nature of Grantee</i>	<b>OMB Circulars</b>			<b>Regulations</b>
	<i>Federal Audit Requirements</i>	<i>Federal Cost Principles</i>	<i>Uniform Administrative Requirements</i>	<i>Department of Labor</i>
State/Local Governments	A-133 Revised 6/24/97	A-87-Amended 8/29/97	A-102-Amended 8/29/97	29 CFR Part 97
Institutions of Higher Education		A-21 Revised 5/19/98	A-110 Amended 8/29/97	29 CFR Part 95
Private Non-Profit		A-122-Revised 6/1/98	A-110-Amended 8/29/97	29 CFR Part 95

## AUDIT OBJECTIVES

Our overall objective was to perform a postaward survey to determine whether the grantees had implemented and/or adequately planned for the financial management, program delivery systems and internal controls necessary to account for and safeguard Federal funds and achieve the purpose of the grant.

Our subobjectives were to determine whether:

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

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

## SCOPE AND METHODOLOGY

During July 1998, OIG developed a postaward survey guide for the first round of competitive grants. The guide was designed to aid auditors in assessing the grantees financial and performance systems. The survey guide was tested in August at three grantees: The County of Union, Elizabeth, New Jersey; Resources for Human Development, Philadelphia, Pennsylvania; and DePaul University, Chicago, Illinois.

After the initial three pilot surveys were completed, a decision was made to survey other competitive grantees. Subsequently, an additional 32 grantees, which were selected on a judgmental basis, were surveyed across the nation. Fieldwork for the 32 additional grantees was conducted from September 1998 through January 1999. (See Appendix 2 for a listing of the 35 grantees reviewed.)

In total, we surveyed 35 of the 51 grantees receiving first round competitive grants. The 35 grants represented 74 percent of the \$199,057,074 awarded. During our survey, we determined whether the grantees had adequately planned for or implemented operational internal control structures governing grant assets and adequate financial and programmatic systems. We also evaluated the grantees' capacity to properly administer the WtW competitive grants in accordance with regulatory requirements. Our examinations were performed in accordance with *Government Auditing Standards*.

## FINDINGS AND RECOMMENDATIONS

### **1. Inadequate Internal Controls Govern Grantee Financial and Management Information Systems**

We determined that overall, the grantees have the capability, including the necessary financial management systems, to administer their WtW competitive grants. However, their financial and management information systems lack the internal controls necessary to comply with WtW's cost limitations and financial reporting requirements. If grantees do not develop the proper internal controls and tracking systems, they will not be able to produce accurate, complete and timely reports that are traceable to source documentation.

Several grantees advised us that they have not modified existing management information systems or purchased new or supplementary software to augment existing systems for the WtW program because ETA has not yet issued participant reporting requirements for WtW competitive grantees. The delay in the issuance of participant data collection and reporting requirements may have an adverse effect on the Federal partners' (DHHS/DOL) ability to measure the actual performance of competitive grantees.

We found that most of the grantees were in the early stages of planning and implementing their WtW program. Only 17 of the 35 grantees we surveyed were operational at the time of our review. Grantees were in the process of hiring staff, developing working relationships with local TANF agencies, complying with local and state review and approval requirements, finalizing agreements with partners and subcontractors, developing operating procedures, and beginning the process of identifying and recruiting WtW applicants. The grantees slow start also contributed to the delay in developing financial and management information systems.

Unless grantees implement the recommendations made as a result of our postaward surveys, they are at risk of being unable to comply with WtW's cost limitations and financial reporting requirements. A discussion of our findings and recommendations in the areas of (a) cost limitations, (b) management information systems, and (c) financial reporting requirements follows.

#### **a. Inadequate Internal Controls Over Cost Limitations**

WtW competitive grantees' financial and accounting systems lack the internal controls necessary to comply with WtW's cost limitations. Their financial management systems need to be modified to control costs applicable to the 15 percent administrative cost limitation and the 70 percent minimum/30 percent maximum cost limitations. These financial management systems also need to be modified to track and record costs by activity and grant budget categories.

The WtW regulations at 20 CFR 645.211(a) state that, “At least 70 percent of the WtW funds allotted to or awarded to an operating entity . . . must be spent to benefit hard-to-employ individuals. . . .” Section 645.211(b) states,

*“Not more than 30 percent of the WtW funds allotted to or awarded to an operating entity . . . may be spent to assist individuals with long-term welfare dependence characteristics . . . If less than 30 percent of the funds is spent to assist individuals with long-term welfare dependence characteristics, the remaining funds shall be spent to benefit hard-to-employ individuals pursuant to paragraph (a). . . .”*

Section 645.235 (a)(2) states that, “The limitation on expenditures for administrative purposes under the WtW competitive grants will be specified in the grant agreement but in no case shall the limitation be more than fifteen percent (15%) of the grant award.”

We found that the majority of WtW grantees reviewed did not have the internal controls necessary to ensure compliance with the above cost limitations. Specifically, we found that their accounting systems were not set up to record and track direct, indirect and allocated costs for the appropriate cost categories. In a limited number of instances, we found that the grantee did not have an accurate understanding of the 70 percent minimum/30 percent maximum cost limitations. These grantees mistakenly believed that the 70 percent minimum/30 percent maximum applied to the number of participants enrolled under the grant and not to total Federal expenditures.

We also found that grantees had not developed subgrant budget formats and financial reporting requirements that would ensure that subgrantee accounting systems had the internal controls necessary to comply with these cost limitations. Since the WtW cost limitations apply to total Federal expenditures, the inability of subgrantees to record, track, document and report costs would adversely affect the grantees’ ability to report total Federal expenditures that are accurate and complete.

## **b. Incomplete/Inadequate Management Information Systems**

WtW competitive grantees have not been provided participant data collection and reporting requirements. As a result, several grantees have not established either a participant tracking system or a participant database. A grantee’s inability to collect performance data may impair ETA’s ability to effectively measure program performance.

The WtW regulations at 20 CFR 645.240 require the Department of Labor (DOL) to issue instructions and formats for financial reporting and the Department of Health and Human Services (DHHS) to issue instructions for participant reporting. Section 645.515 also authorizes DOL to establish supplemental reporting requirements for competitive grant recipients.

On June 24, 1998, ETA issued Field Memorandum Number 38-98, entitled “Welfare-to-Work Reporting.” The purpose of this field memorandum was to transmit WtW financial reporting formats and corresponding instructions for both formula and competitive WtW grants, and to set forth Regional Office and National Office roles in the reporting process. This reporting format and instructions were subsequently incorporated into existing grant agreements by a unilateral grant modification effective July 1, 1998.

On October 29, 1998, DHHS published in the Federal Register an Interim Rule that specifies the WtW reporting requirements for states and Indian Tribes. These reporting requirements are restricted to WtW formula grantees. The Interim Rule further stated that the DOL will specify participant reporting requirements applicable to all individuals enrolled in the WtW competitive grant program. The data will be reported to DOL by the grantee unless the states agree to compile and transmit the data to DHHS. DHHS and DOL will develop a common data format and specifications to facilitate this complementary reporting. **To date, the DOL has not issued specific participant reporting requirements applicable to WtW competitive grant programs.**

We found that several grantees had not established either a participant tracking system or a participant database for the WtW program. In some cases, the grantee was using an electronic spreadsheet to track participant progress through the program. However, this may not be sufficient to meet WtW data reporting requirements when program reporting requirements and participation increases.

Several grantees have decided to wait for ETA to provide participant reporting requirements before they modify existing management information systems or purchase new or supplementary software to augment existing systems. We also found that some of the grantees needed to update their existing written procedures to address WtW requirements.

### **c. Inadequate Internal Controls Over Financial Reporting**

Some of the WtW competitive grantees we examined (16 of 35) did not have internal controls in place to produce accurate, complete and timely reports of costs for program activities which are traceable to source documentation. Grantee accounting systems were not set up to track and record direct, indirect and allocated costs by program activity.

Section 645.240(a) of the WtW regulations states that, “. . . *All States and other direct grant recipients shall report pursuant to instructions issued by DOL (financial data) and by DHHS (participant data).*”

ETA's Field Memorandum No. 38-98, dated June 24, 1998, transmitted WtW financial reporting formats and corresponding instructions for both formula and competitive grants to the ETA regional offices. This field memorandum included OMB's approval of the WtW reporting requirements as well as roles and responsibilities assigned ETA's national and regional offices.

ETA has developed a WtW monitoring guide to be used by Federal staff in monitoring WtW competitive and formula grants. This monitoring guide includes provisions for reviewing financial management and accounting systems as well as financial reporting.

WtW grantees will report the required data elements electronically via the Internet on a WtW Competitive Grant Cumulative Quarterly Financial Status Report (QFSR). The QFSR has two sections which require financial information. The first section requires grantees to report Federal expenditures against WtW's cost limitations. Federal expenditures are to be reported based on the 15 percent administrative cost limitation and the 70 percent minimum/30 percent maximum cost limitations. This section also requires that Federal Technology and Computerization expenditures, which the regulations exclude from being charged to the administrative cost category, be reported as a single line item.

The second section of the QFSR requires that expenditures be reported by program activity. These activities include such items as community services, work experience, job creation employment wage subsidies, on-the-job training, job readiness services, job placement services, post-employment services, job retention services and supportive services. ETA's reporting instructions do not contain either definitions or examples of individual program activity categories. ETA advised WtW competitive grantees, at their initial training session in July 1998, that they should develop definitions for each activity category that are consistent with the definitions in their State's TANF plan.

**Recommendations:**

We recommend that the Assistant Secretary for Employment and Training:

- S issue policy guidance and instructions which fully explain the 70 percent minimum/30 percent maximum WtW cost limitations,
- S monitor grantee operations to ensure that the appropriate internal controls are in place at both the grantee and subgrantee levels to ensure that financial reporting systems can be relied upon to produce accurate, complete and timely reports that are traceable to source documentation,

- S issue interim guidance to WtW competitive grantees until specific participant reporting requirements can be published in the Federal Register. This guidance should include participant data collection requirements and establish an effective date for the collection of participant data for reporting purposes,
- S conduct onsite reviews of grantee financial and management information systems to ensure that grantees develop the internal controls necessary to report financial information on an accurate, complete and timely basis, and
- S provide immediate technical assistance to any WtW grantee that lacks the necessary internal controls to comply with WtW's financial reporting requirements.

### **Agency Response and Auditor's Conclusions**

ETA outlined its plans to provide technical assistance through financial procedures training in April, based on a new financial management technical assistance guide (TAG). The TAG will address cost limitations, internal controls over and formulating systems for financial and performance activities, and reporting.

Also, ETA plans to issue additional policy guidance which more fully explains the 70/30 percent cost limitations and reporting requirements. The agency's plans include monitoring the grantees to assess whether their reporting systems are in place and whether data is traceable to source documentation. Next month, ETA is planning to submit to OMB participant reporting requirements. When approved, the participant reporting requirements will be covered in orientation and training sessions.

ETA's planned corrective actions are responsive to our recommendations which are considered resolved, but not closed, pending receipt of reported implementation of ETA's plans.



## **2. WtW Grantee Policies and Procedures Need Strengthening**

The large majority of grantees (as many as 27 of 35) have not reduced to writing either their internal or external operating procedures for the WtW program. Most grantees have established operating procedures covering their general operations. However, these procedures have not been modified to address their additional responsibilities under the WtW program. The formalization of operating procedures, including duties and responsibilities, is especially important when they address their relationship with outside agencies that will provide major services required under the WtW regulations.

### **a. Lack of Formal Agreements with TANF Agencies**

WtW grantees have developed informal relationships with local TANF agencies that do not fully define the roles and responsibilities of each agency. Good internal control practices dictate that, since TANF information is necessary to determine the eligibility of every WtW participant, identifying roles and responsibilities as well as establishing accountability is critical to the flow of information as well as making an accurate eligibility determination.

These informal relationships and procedures could lead to misunderstandings for grantees in complying with WtW eligibility requirements. Therefore, it is in the grantee's best interest to reduce their relationship with the TANF agency to written form so that each agency's roles and responsibilities can be clearly defined.

The WtW regulations at 20 CFR 645.214 (a) state that the grantee is responsible for ensuring that WtW funds are spent only on individuals eligible for WtW projects. Section 645.214 (b) states that, "*The operating entity must ensure that there are mechanisms in place to determine WtW eligibility for individuals who are receiving TANF assistance. . . .*"

Section 645.214 (b)(1) states that these mechanisms, "*Must include arrangements with the TANF agency to ensure that a WtW eligibility determination is based on information, current at the time of the WtW eligibility determination, about whether an individual is receiving TANF assistance . . . the length of receipt of TANF assistance . . . and when an individual may become ineligible for assistance. . . .*"

The WtW regulations allow the grantee and the local TANF agency to determine the scope of their working relationship, including developing operating procedures and defining roles and responsibilities. Since receipt of TANF assistance will be the most critical eligibility criterion in the majority of cases, it is essential that the TANF agency be the source of information about whether an individual is receiving TANF assistance, the length of such assistance, and the applicable time limits governing such assistance.

Because of the importance of TANF data to the eligibility determination process and the grantees' necessary reliance on the TANF agency for such data, the lack of written agreement may expose the grantee to questioned costs, if the information provided is in error.

**b. Lack of Formal Eligibility Procedures**

WtW grantees have developed informal procedures for determining eligibility. However, these procedures do not fully identify what information will be collected to determine eligibility, how eligibility information will be collected, and what procedures will be followed to determine an applicant's WtW eligibility.

The WtW regulations state that the grantee is accountable for ensuring that funds are spent on individuals who are eligible for the program. The regulations also acknowledge that the grantee will need the assistance of outside parties to determine WtW eligibility. The eligibility criteria may include a multitude of factors, such as the applicant's status of TANF assistance, barriers to employment, characteristics associated with long-term welfare dependency, substance abuse and school achievement levels. Therefore, the grantee will need to deal with a variety of agencies and individuals to gather information and document their eligibility determination.

ETA has developed a WtW monitoring guide to be used by Federal staff in monitoring competitive and formula grants. This monitoring guide includes provisions for reviewing policies and procedures applicable to the eligibility determination process. These provisions also include a requirement to review a sample of participant records as well as the grantee's working relationship with the local TANF agency.

We found that several of the grantees need to develop formal written eligibility determination procedures. These written procedures should include instructions for the completion of intake, application and eligibility determination forms. As a direct result of our onsite reviews, some grantees revised their eligibility forms and eligibility requirements. These changes were made to meet the technical legislative amendments regarding eligibility of non-custodial parents.

**c. Lack of Written Policies and Procedures**

We found that the grantees were in the early stages of planning and implementing their competitive grants. Generally at the time of our visits, the grantees' programs were not yet operational or only a few WtW participants were enrolled.

The most consistent discrepancy noted among the grantees surveyed was that WtW written policies and procedures had not been fully developed or were in the early stages of development. We found that a majority of the grantees had existing policies and procedures, but they did not address Federal

requirements. Our review identified that 27 of 35 grantees (77 percent) did not have written procedures for WtW financial and performance operations.

Good accounting practices and internal controls require written policies and procedures; for instance, 29 CFR 95.21(b) states:

*“ . . . financial management systems shall provide . . . (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.”*

Written procedures are particularly important to a program where new staff is being hired and many of the activities are contracted to subrecipients. It is important to have written policies and procedures to gain an understanding of the pertinent program requirements and to serve as a standard for program operations.

Supplements to current policies and procedures are necessary to help grantees establish more effective and efficient WtW operations and results. WtW procedures should address the principal requirements and provisions found in the WtW Interim Rule and related Federal requirements. To assist several grantees during our visits, we provided them with a binder outlining a number of areas that should be included in their policies and procedures. (See Appendix 3 for some of the areas that should be considered for written policies and procedures.)

We also advised several grantees that related OMB circulars and Federal regulations should be included as appendices to their written policies and procedures. Combining the materials in one binder provides an easy reference for most issues related to WtW program and Federal requirements. Written procedures should benefit staff working on the WtW program.

### **Recommendations:**

We recommend that the Assistant Secretary for Employment and Training:

- S issue specific policy guidance and instructions that fully delineate a grantee’s responsibilities concerning developing a working relationship with the local TANF agency,
- S advise WtW grantees to develop written Memoranda of Understanding with local TANF agencies that fully outline their specific roles and responsibilities under the WtW program,

- S strongly encourage grantees to develop formal written eligibility procedures which fully explain specific roles and responsibilities of all parties involved in the grantee's eligibility determination process, and
- S issue a Technical Assistance Guide to assist grantees in developing adequate written policies and procedures for the WtW program. Adequate policies and procedures should include both financial and performance requirements.

### **Agency Response and Auditor's Conclusions**

ETA responded that it has scheduled along with HHS, a series of TANF/WtW conferences to address procedural problems (including eligibility) that exist between the two programs. Plans are to issue similar guidance by both programs. ETA anticipates that development of formal Memoranda of Understanding will be based on this guidance. ETA will encourage grantees to establish formal written procedures for specific topics and will provide guidance through the new TAG and individual policy issuances.

ETA's planned corrective actions are responsive to our recommendations which are considered resolved, but not closed, pending receipt of reported implementation of ETA's plans.

### **3. Grantee Operations Contain Potential Violations of the Fair Labor Standards Act**

Three grantees substituted stipends, assistance/points and voluntary/non-paid work activities for wages in possible violation of the minimum wage provisions of the Fair Labor Standards Act (FLSA). In two of the three instances identified, these activities were included in the approved grant agreement. These compensation arrangements appear to violate the FLSA and may result in a liability for payment of back wages to participants. To properly comply with FLSA requirements, grantees may be required to restructure their grant budgets to ensure that the minimum wage is paid, resulting in a higher cost per participant than originally planned, thus reducing the number of participants that can be served under the grant.

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) is silent on the question of whether minimum wage protection applies to participants in work programs under TANF. In May 1997, the Department of Labor issued a policy announcement explaining that the PRWORA does not exempt work participants from the FLSA and that Federal employment laws such as the FLSA apply to welfare recipients as they apply to other workers. This guidance provides that welfare recipients engaged in work activities are subject to the minimum wage requirements.

We noted that the WtW regulations, grant assurances and the approved grant agreements do not have specific language that fully addresses the minimum wage provisions of the FLSA. We also noted that the ETA's grant review and approval process did not identify these potential violations of the FLSA.

We identified what amounted to a voluntary work program at a multi-site WtW grantee serving 9 states with 27 local sites. At each of the four sites visited, WtW participants were placed in a non-paid or voluntary work activity in order to meet WtW's mandatory "work-first" requirement. Some of the WtW participants have been enrolled in this voluntary/non-paid work activity since September 1998. This voluntary work activity may be in violation of the FLSA minimum wage requirements.

At the four local sites we visited, this grantee offered a minimal number of hours of unpaid/voluntary work activity per week in addition to vocational training. For example, at two local sites the participants worked two to five hours per week. The vocational training was designed to meet an allowable exception to the local TANF agency's work requirements for TANF recipients.

The second grantee's approved project proposal included stipends in lieu of wages for its work experience programs. We found that the budgeted amounts for stipends were not sufficient to comply with the FLSA minimum wage requirements. This issue was discussed with the area FLSA representative, who determined that the grantee should pay the minimum wage in its work experience programs.

At a third grantee, we found that the WtW participants enrolled in work experience were receiving assistance/points in lieu of wages. The budget narrative of the approved project proposal states the following regarding the payment of participant wages and fringe benefits: *“Rather than paychecks and fringe benefits (because this is work experience), participants will have, ‘passbooks,’ which track earned points. Points may be exchanged for items in the ‘store;’ choices will include food stuffs, gift certificates, soft goods, and hard goods. Funds will be used to supplement business and industry donations.”*

This grantee believed the WtW participants were receiving the equivalent of the minimum wage in the form of assistance/points. The grantee also stated that, *“In the State of Georgia, the ‘workfare’ participant is considered an employee of the State, not of the [grantee]. Thus, the total dollar amount of the trainee’s assistance divided by the minimum wage yields the maximum number of hours the participant can receive work experience.”*

We disagree with the grantee’s interpretation. Welfare recipients who are enrolled in state workfare programs which require recipients to work in return for their welfare benefits must be compensated at the minimum wage if they are classified as “employees” under FLSA’s definition. Once welfare recipients are enrolled in the WtW program, they are also subject to the minimum wage provisions of the FLSA. The basic issue is who is the employer. Since the welfare recipients are enrolled in the grantee’s WtW work experience program, we believe that they are not state employees and that the WtW program should adhere to the minimum wage provisions of the FLSA.

### **Recommendations:**

We recommend that the Assistant Secretary for Employment and Training:

- S** identify all WtW competitive grantees that are not paying the established minimum wage and obtain a written decision from the area FLSA representative concerning the grantee’s compliance with the minimum wage provisions of the FLSA,
- S** issue specific policy guidance to grantees concerning the minimum wage provisions of the FLSA, and
- S** revise the grant application and grant review process to ensure that the minimum wage provisions of the FLSA are included in any approved grant agreement.

### **Agency Response and Auditor’s Conclusions**

ETA reports it has discussed the Fair Labor Standards Act (FLSA) problems identified in our report with DOL’s Wage and Hour Division. The grantees with FLSA problems have been contacted via a conference call with the Wage and Hour Division to outline corrective actions.

WtW's monitoring guide is designed to address minimum wage issues through scheduled monitoring visits which are currently under way. Wage and Hours Division will be consulted, if problems are found.

ETA further states that their grant transmittal letter contains bold underlined language specifically mentioning adherence to all Federal statutes including the FLSA. DOL's publication, "How Workplace Laws Apply to Welfare Recipients" has been included on the WtW website. Wage and Hour provided an overview of the FLSA requirements during the orientation training for the round two competitive grantees. ETA believes the FLSA issues which occurred in 3 of the 35 grantees surveyed are exceptions to an otherwise well-informed group. Accordingly, ETA does not expect FLSA problems related to the formula grantees which have experience with DOL programs and requirements. ETA believes that the current regulatory language on the need to adhere to Federal statutes and the activities and products being planned are sufficient regarding FLSA requirements.

We concur with the corrective actions being taken by ETA and find these recommendations resolved, but not closed, except for revising the grant solicitations and agreements. We believe that to further ensure adherence to the FLSA requirements, it is appropriate that the Solicitation for Grant Applications (SGA) and the Special Clauses and Conditions of the grants should contain FLSA requirements including minimum wage provisions.

#### 4. Grantees Need to Comply with Welfare-to-Work's "Work-First" Requirement

At three grantees, we found training was either planned or provided prior to participation in employment activities, which is contrary to WtW's "work-first" concept. At a fourth grantee, that operated multiple sites, four of the sites we visited offered voluntary or non/paid work activities, raising a question as to whether these activities meet the minimum number of hours to constitute work for purposes of WtW.

The Department of Labor (DOL) has been very clear in outlining the legislative intent of the WtW program. WtW is unique among employment and training programs in that it requires an individual to be placed in subsidized or unsubsidized work activities **prior** to receiving education and skills training related to the job. Previous programs, such as the Job Training Partnership Act (JTPA) of 1982, as amended, and its predecessor, the Comprehensive Employment and Training Act (CETA) of 1973, emphasized training and supportive services followed by job placement. However, the WtW program requires participants be engaged in employment-based activities prior to receiving post-employment services.

The ETA announced the first solicitation for grant applications for WtW competitive grants in the Federal Register on December 30, 1997. ETA's solicitation stated that competitive grant projects would be expected to achieve the overall purpose of the WtW program, which is, "*To provide transitional assistance which moves welfare recipients into unsubsidized employment providing good career potential for achieving economic self-sufficiency.*" ETA's solicitation also states that:

*"This transitional assistance is to be provided through a "work-first" service strategy in which recipients are engaged in employment-based activities. Grant funds may be used to provide needed basic and/or vocational skills training as a post-employment service in conjunction with either subsidized or unsubsidized employment."*

Section 645.220 of the WtW regulations provides that basic educational skills training and occupational skills training are allowable activities, but only as post-employment services. The narrative discussion of the meaning of this section states that:

*"While the legislation does not permit stand-alone training activities independent of a job, allowing them as post-employment activities only while the participant is working in a subsidized or unsubsidized job reflects the basic "work-first" thrust of the legislation, while recognizing the critical importance of continuous skills acquisition and lifelong learning to economic self sufficiency."*

One grantee we visited assumed that all TANF recipients referred by the local TANF agency had been placed by that TANF agency and, therefore, met the WtW's "work-first" requirement. The grantee obtained no evidence or assurance that the "work-first" requirement was being met. For



example, the local TANF agency requires TANF recipients to either work at least 25 hours per week or conduct 40 job searches per week to retain their TANF benefits. If the TANF recipient conducted 40 job searches per week in lieu of working 25 hours per week, s/he would meet the local TANF agency's work requirements, but **not** WtW's "work-first" requirement.

Basic educational skills training and occupational skills training are allowable activities as post-employment services, but not allowable as a stand-alone activity. However, at a second grantee, the description of several of the grantee's work experience programs disclosed that training appears to be given prior to finding the participants employment or enrolling them in a work activity. A third grantee had a contract with a private-for-profit employer which called for preemployment training, which included an initial 8 week classroom instruction and orientation phase followed by an on-the-job-training (OJT) phase for those trainees found capable. In both situations, the length and depth of the training appears to go beyond the type of job readiness orientation or employment assessment allowed by the WtW regulations and, therefore, does not pass the "work-first" test.

### **Minimum Hours of Work**

The welfare reform bill, PRWORA, included a requirement that 25 percent of all TANF families and 75 percent of two-parent families have an adult engaged in work activities in FY 1997 (families with no adults were exempted). States were given the option of exempting single parents of children under one year of age from the work requirement. In order to be counted towards the work participation rate, a single parent is required to be engaged in a work activity, as defined by the law, for 20 hours per week in FY 1997. For an adult in a two-parent family, 35 hours of work are required. The mandated hours of work for single parents increased to 25 hours in FY 1999 and 30 hours in FY 2000. Qualifying work activities include a range of subsidized and unsubsidized, private and public sector employment. In addition, a limited number of TANF recipients can meet the work requirement by participating in vocational training and high school education programs.

WtW regulations do not specifically prescribe the minimum number of hours necessary to meet the "work-first" requirement. However, WtW's work-first requirement refers to the TANF concept that the primary focus is on placing individuals in employment activities. The Department of Labor's policy guidance suggests that the number of hours established by a WtW grantee be consistent with the **work** requirements established by the local TANF agency.

We visited a national WtW grantee serving 9 states with 27 local sites. At each of the four local sites we visited, the WtW vocational training/work activity schedules appeared to be designed to meet the local TANF work requirements rather than the WtW "work-first" requirement. The principal emphasis was placed on vocational training, independent of subsidized or unsubsidized employment with voluntary/non-paid work activity (average of 2 - 5 hours per week) being added in an apparent attempt to meet the "work-first" requirement.

In each of the states we visited, the local TANF agency requires a minimum number of hours of work per week to maintain TANF benefits. Each state also allows TANF recipients to participate in approved vocational training in order to meet local TANF work requirements. The grantee's vocational training courses may meet the local TANF work requirements but, because they are not principally employment activities, do not meet WtW's "work-first" requirement.

### **Recommendations:**

We recommend that the Assistant Secretary for Employment and Training:

- S issue specific policy guidance and instructions which fully define and illustrate WtW's "work-first" requirement,
- S incorporate in program guidance a suggested number of work hours as the basis for meeting the "work-first" requirement for WtW purposes, and
- S take appropriate action to revise grantee operations which are not in compliance with WtW's "work-first" requirement.

### **Agency Response and Auditor's Conclusions**

ETA stated that through extensive public consultations prior to issuing the Interim Rule, the Department has sought to provide grantees with the maximum flexibility in defining programs for their communities. ETA also states the TANF holds as one of its basic tenets the empowerment of the states and localities regarding definitions and program design. DOL current policy guidance encourages grantees to take into consideration the work requirements established by TANF for the WtW program.

Additionally, ETA stated that work-first has been addressed in the SGAs that were issued. ETA also plans to issue additional policy guidance which clarifies and illustrates, but does not define or prescribe a minimum number of work hours. ETA stated they are working with the grantees identified as having work-first issues to reflect the intent of the legislation. ETA took exception to a statement in our report that policy guidance **suggests** the number of work hours established by a grantee should be consistent with local TANF work requirements.

We concur with the corrective actions being planned by ETA. However, we consider the recommendations unresolved. It is our opinion that the policy guidance does **suggest** that work requirements be consistent with local TANF work requirements. Therefore, illustrations of acceptable work-first activities should be provided in program guidance to the grantees. Additionally, monitoring visits should include identification of grantees not in compliance with the work-first requirement so that corrective actions can be initiated.

## **5. Proposed Use of Grant Funds for Business Start-up Operations and Venture Capital Appears Improper**

We identified two instances in which grantees planned to enter into contractual arrangements with private-for-profit organizations to finance business operations with WtW funds. Although the grantees cited job creation through wage subsidization and OJT placements as the basis for these arrangements, the essence of these contracts amounted to using WtW funds to finance start-up business operations, with only secondary benefits to WtW participants.

Allowable WtW activities do not include start-up costs of a business or joint venture. Moreover, a number of potential risks may be incurred providing venture capital to grantees. These risks may include occupational safety and health liability for a new employer, and a shared responsibility for the future success and sustainability of the business.

### **Business Start-up Costs**

We were informed by ETA that a grantee's subrecipient planned to use approximately \$800,000 of the \$1.1 million awarded for start-up costs for space, equipment, and non-participant employee wages. Only about \$300,000 will be used for payments to the WtW participants. Start-up costs are not listed as an allowable activity under WtW regulations. The regulations at 20 CFR 645.220 describe allowable activities:

*“Entities operating WtW projects may use WtW funds for . . . (a) Job readiness activities . . . (b) Employment activities which consist of any of the following: (1) Community service programs; (2) Work experience programs; (3) Job creation through public or private sector employment wage subsidies; and (4) On-the-job training. . . .”*

Other allowable activities include job placement services, post-employment services, job retention and support services, provisions for Individual Development Accounts, and routine activities such as intake and assessment. Business start-up costs are not included in the allowable activities.

The subrecipient's budget specifies that a majority of the award will be used for office space, facilities, plant remodeling, leased equipment, supplies, and office furnishings. The grantee believes that the subrecipient's expenditures are allowable, because they are associated with OJT participants and will contribute to job creation. Although WtW regulations do not specifically define what encompasses OJT, historically OJT payments were used to reimburse employers for the extraordinary cost of training participants. The OJT costs normally do not include start-up or day-to-day operating costs of a private-for-profit entity.

The WtW regulations reference job creation at 20 CFR 645.220(b)(3) as:

*“Job creation through public or private sector employment wage subsidies. . . .”*

While this definition may not be comprehensive for all acceptable job creation activities, it does provide insight as to what is acceptable. We believe the regulation does not provide for subsidization of a private-for-profit business operation which is not acceptable as a job creation activity.

In November, ETA received a letter from the grantee which stated that \$248,851 of its own funds (which is approximately 25 percent of the WtW grant award) had been advanced to the subrecipient. The letter also stated that the business was not operational and no training equipment was available for onsite training of participants. On December 28, 1998, the PIC submitted an invoice totaling \$425,358 to ETA for payment. The invoice was not accompanied by supporting documentation and was not approved for payment. ETA approved a total of \$20,400 for the wages of 17 welfare participants being trained to operate equipment.

In December, the grantee revised the contractor’s budget amount to \$669,095. The revised contract also changed the emphasis from start-up costs to providing \$491,047 for extraordinary OJT training costs. The lack of a WtW definition for OJT makes it difficult to evaluate the reasonableness and acceptability of these training costs. Normally, OJT contracts are awarded to cover only the reimbursement of extraordinary costs incurred by the employer to train participants. Moreover, the revised cost proposal appears unreasonably high to train only 65 participants, amounting to approximately \$7,554 per participant.

On January 19, 1999, we initiated a meeting with ETA officials in the Atlanta Regional Office. ETA informed us that they will continue to require the grantee to submit invoices and supporting documentation for related expenditures. At this time, only participant costs (salaries and fringe benefits) will be reimbursed.

### **Joint Venture Partnership**

While completing fieldwork at one grantee, we were informed of the grantee’s plan to enter into a joint venture with other local agencies and a private-for-profit employer. This start-up venture included in its budget \$500,000 in WtW funds that would be used for the purchase of manufacturing equipment. Representatives of the grantee indicated that this equipment would be used to retrofit a manufacturing operation to produce aluminum windows.

The WtW grant states that a local community-based organization which promotes job placement and training activities to local residents is planning a joint venture partnership to accomplish its goals. The venture plans to establish a plant to train and provide job opportunities for WtW participants to

manufacture and install customized aluminum windows. The project is expected to produce at least 45 new jobs and 55 OJT opportunities.

The cost of operating a business is not an allowable activity under 20 CFR 645.220. Moreover, we share the concerns expressed by ETA regional management regarding the policy of using public grant monies to finance **start-up, private-for-profit, risk ventures**. The organization being formed for this project is not an established “going concern” and has no proven record of success. Also pertinent is the impact of this organization which will be in competition with other aluminum window manufacturers in the local area.

Although WtW funds are being required up-front, the benefits to participants will only occur through job training and OJT activities of the joint venture, which is dependent upon the ability of the business to secure all the funding necessary to begin operations. Yet, a completed business plan was still in the developmental stages at the time we completed our postaward survey.

The regulation at 20 CFR 645.265 provides safeguards to ensure that participants in WtW activities do not displace other employees. Also, regulations require that WtW activities shall not violate existing contracts or agreements, replace laid-off workers, or replace involuntary reductions in the workforce, including the number of hours worked. A new entry into the competitive field could adversely affect other workers in the same field.

### **Recommendations:**

We recommend that the Assistant Secretary for Employment and Training:

- S issue policy that prohibits the use of WtW funds for start-up costs related to new businesses and capital ventures, and
- S take actions as necessary to de-fund or restructure existing projects that have used or intend to use WtW funds for business start-up, capitalization or other unallowable costs.

### **Agency Response and Auditor’s Conclusions**

ETA’s response stated that the Office of Welfare-to-Work will issue a policy prohibiting the use of WtW funds for business start-up costs and will restructure any existing projects. Job readiness activities will include provisions for WtW participants to start a business. ETA stated that they would allow approved tool and machinery costs for WtW projects.

ETA’s planned corrective actions are responsive to our recommendations which are considered resolved, but not closed, pending issuance of revised policy and restructuring of existing projects.

## 6. Single Unit Price Billings Circumvent WtW's Administrative Cost Limitation

While the WtW regulations at 20 CFR 645.235, and the grant agreement itself establish a 15 percent limitation on administrative costs, we found one private nonprofit grantee had structured its competitive grant agreement to recover costs on a “single unit charge” basis. According to the grant, all costs, **including operational (administrative) expenditures**, will be charged to only one program cost category.

By way of explanation, the grant states that the grantee's costs are based on published catalog tuition prices. The grantee has developed a listing of tuition costs for each vocational training course offered. The grant agreement does not include detailed explanations as to how individual tuition costs were compiled. The unit price varies dependent upon the individual class. We were advised that the tuition price for each class was based upon local site costs, plus regional costs, plus national office costs. National office and regional office costs appear to include such items as administration, oversight, technical assistance and indirect costs.

Further, the grant cites the Job Training Partnership Act regulations at 20 CFR 627.440(e)(3) as allowing “*commercially available off-the-shelf training packages*” to be single unit charged to the program category. The JTPA regulations cited by the grantee do not apply to WtW. Even if they did, the JTPA regulations at 20 CFR 627.440(e)(3) conditions single unit charging of commercially available off-the-shelf training to subrecipient awards. In this case, the grantee is the primary recipient, not a subrecipient.

The WtW regulations at 20 CFR 645.235 specifically require that recipient, subrecipient or PIC costs for “*overall program management, program coordination and general administrative functions*” be charged to the administrative cost category. Also, pursuant to 20 CFR 645.230 of the WtW regulations, the grantee is subject to OMB Circular A-122, Cost Principles for Nonprofit Organizations. Attachment A.4.a. of Circular A-122 requires that costs be allocated “. . . to a particular cost objective . . . in accordance with the relative benefits received. . . .”

We believe the failure to separately report administrative expenditures is contrary to WtW requirements, which intend to limit the amount of funds spent on administrative -- as opposed to program -- costs. The effect of the grantee's single unit charging of all WtW costs to the program category is that ETA will have no basis for determining if the grantee is in compliance with WtW's administrative cost limitation. Despite the grantee's plans to report all costs under the program cost category, we noted that the grantee's accounting system has the capability to report WtW costs to the appropriate cost categories on an actual cost basis.

In addition, the total amount of this grant is included on the contractual line item in the approved grant budget. The grantee's explanation of this budget item is that all WtW participants enter into a written contract/WtW service agreement upon entry into the program. However, as the participants are

recipients, rather than providers of service, we believe characterizing their costs as contractual is highly misleading, if not misrepresentative.

We also are concerned about provisions in the grant agreement which allow the grantee to bill for training not rendered. This WtW service agreement states that the grantee will bill the WtW grant for the cost of short-term training if the WtW participant, after being placed in a job, refuses to return to training. The project proposal incorporated into the approved grant agreement states that a nominal charge equivalent to the average cost per placement of the short-term training will be assessed by the grantee. The grant agreement states that the average cost of short-term training is \$2,810 per trainee. Since short-term training will not be provided if the participant refuses to attend, the effect of this provision permits the grantee to charge the grant for services **not** provided to participants.

### **Recommendations:**

We recommend that the Assistant Secretary for Employment and Training:

- S** modify the grant agreement to require the grantee to allocate and report WtW expenditures to the benefitting cost categories (administrative and program), and
- S** eliminate the provision in the approved grant agreement that allows the grantee to bill for short-term training when an individual, upon initial placement by the grantee, refuses to return for training.

### **Agency Response and Auditor's Conclusions**

ETA responded that the Department will work with the specific grantee to assure it accounts for and reports WtW expenditures according to benefitting cost categories and program activities in accordance to the WtW financial report instructions. ETA also stated that the provision which allows for billing of short-term training (which may not be received) after initial placement, will be eliminated from the grant.

We concur with ETA's planned corrective actions which are responsive to our recommendations. We consider these recommendations resolved, but not closed, pending receipt of reported implementation of planned actions.

## Overview of Principal Criteria

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

### ! Purpose of the WtW Program:

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

### ! Work-First:

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

### ! Funds Spent:

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



## Overview of Principal Criteria

### ! 70 Percent Eligibility Provision:

- (a) Must meet all three criteria:
  - 1. Currently receiving TANF assistance;
  - 2. Participant must meet two of the three barriers to employment:
    - A. has not completed secondary education or obtained GED and has low reading and math skills,
    - B. requires substance abuse treatment for employment, or
    - C. has a poor work history (worked no more than 3 of the last 12 months);
  - 3. Receiving TANF for at least 30 months or will become ineligible for assistance within the next 12 months.
- (b) A noncustodial parent of a minor, if the custodial parent or minor children meet the criteria in (a) 1 & 3 and the **noncustodial** parent meets two of the three barriers to employment. (Revised according to the Technical Amendment)
- (c) An individual who meets two of the three barriers to employment and would be eligible to receive TANF, but has reached the lifetime limitation. (20 CFR 645.212)

### ! 30 Percent Eligibility Provision:

- (a) The individual is receiving TANF and has characteristics associated with long-term welfare dependence:
  - 1. dropped out of school,
  - 2. teenage pregnancy,
  - 3. poor work history, or
  - 4. other approved characteristics.
- (b) A noncustodial parent of a minor child, if the noncustodial parent has long-term characteristics specified in (a) and the custodial parent is receiving TANF assistance.
- (c) An individual who has characteristics associated with long-term welfare dependence and would be eligible to receive TANF, but has reached the lifetime limitation. (20 CFR 645.213)

## Overview of Principal Criteria

### ! Mechanisms Must be in Place to Determine Eligibility:

- Ⓒ The grantee must make arrangements with the TANF agency to ensure that WtW eligibility determination is based on current information and whether an individual is receiving TANF assistance.
- Ⓒ The assessment may include a determination of the barriers to employment.
- Ⓒ Information collected by the TANF agency may be valid for up to 6 months prior to the WtW eligibility determination.
- Ⓒ Mechanisms must be in place to determine eligibility for individuals not receiving TANF and for those who have reached their lifetime limitation.
- Ⓒ Eligibility for WtW need not be redetermined after services are received.  
(20 CFR 645.214)

### ! Allowable Activities:

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

## Overview of Principal Criteria

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

### ! Job Placement Contracts or Vouchers:

Job placement contracts or vouchers must include a provision that at least one-half of the payments occur after the individual is placed in an unsubsidized job for 6 months. (20 CFR 645.230)

### ! Administrative Costs:

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

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

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

## Overview of Principal Criteria

### **! Indirect Costs:**

Indirect or overhead costs are normally charged to administration, except when charged to a cost pool and allocated to a cost objective/category directly benefitted.  
(20 CFR 645.235)

### **! Information Technology Costs:**

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

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

## WtW Competitive Grantees Included in Postaward Surveys

GRANTEE	LOCATION	AMOUNT	FIELDWORK	
			BEGINNING DATE	ENDING DATE
Work Place, Inc - S.W. Conn	Bridgeport, CT	\$5,000,000	11/9/98	11/19/98
Metropolitan Area Planning Council	Boston, MA	4,082,065	11/23/98	12/4/98
County of Union	Elizabeth, NJ	5,000,000	8/3/98	8/7/98
Hudson County	Secaucus, NJ	4,914,297	11/17/98	11/20/98
Non-Profit Assistance Corporation	New York, NY	4,871,904	11/2/98	11/6/98
Coalition for the Homeless	Washington, DC	1,965,601	11/2/98	11/6/98
PIC of Philadelphia, Inc.	Philadelphia, PA	4,351,247	12/4/98	12/16/98
Resources for Human Development, Inc.	Philadelphia, PA	1,866,460	8/10/98	8/14/98
Hampton University Career Advancement	Hampton, VA	4,898,000	10/19/98	11/5/98
CET-NATIONAL WtW PROJECT	San Jose, CA	4,003,294	10/27/98	12/15/98
Total Action Against Poverty, Inc.	Roanoke, Va	2,736,272	10/19/98	10/23/98
IAM CARES	Upper Marlboro, MD	5,000,000	10/21/98	10/29/98
The NOAH Group, LLC	Silver Spring, MD	7,800,000	11/2/98	11/9/98
The Ins. for Responsible Fatherhood	Washington, DC	4,427,318	10/13/98	11/6/98
National Association of Private Industry Council	Washington, DC	4,912,658	10/19/98	12/14/98
United Way of Central-Alabama	Birmingham, AL	4,997,966	11/9/98	11/20/98
Mayor's Office of Citizens Employment & Training	Atlanta, GA	5,000,000	10/19/98	10/29/98
Louisville and Jefferson PIC	Louisville, KY	4,999,898	10/19/98	10/29/98
National Goodwill Industries WtW Consortium	Macon, GA	5,300,000	11/12/98	11/19/98
Corporation for Ohio Appalachian Development	Athens, OH	5,000,000	9/21/98	9/25/98
River Valley Resources, Incorporated	Madison, IN	5,000,000	9/21/98	9/29/98
City of Detroit Employment and Training Department	Detroit, MI	4,860,633	9/21/98	10/21/98
Bethel New Life	Chicago, IL	2,739,506	10/19/98	10/30/98
DePaul University	Chicago, IL	5,000,000	8/10/98	8/13/98
City of Chicago The Workforce Board	Chicago, IL	3,000,000	12/10/98	1/19/99
Indianapolis PIC	Indianapolis, IN	5,000,000	11/2/98	11/18/98
The City of Little Rock	Little Rock, AR	5,000,000	10/27/98	11/3/98
Houston Works	Houston, TX	5,000,000	10/27/98	11/4/98
Catholic Social Services of Albuquerque, Inc.	Albuquerque, NM	1,343,133	10/28/98	11/5/98
National Goodwill Industries Welfare to Work Consortium	San Antonio, TX	5,000,000	11/16/98	11/20/98
Rocky Mountain SER/Jobs for Progress, Inc.	Denver, CO	1,460,864	11/16/98	11/18/98
CHARO Alliance Welfare to Work	Los Angeles, CA	3,999,650	11/16/98	11/20/98
PIC of San Francisco, CA	San Francisco, CA	4,189,231	10/13/98	10/23/98
The Cambodian Family	Santa Ana, CA	1,216,167	11/2/98	11/6/98
Oakland Private Industry Council	Oakland, CA	3,000,000	11/16/98	11/20/98
	Total for 35 Grantees	\$146,936,164		

### Suggested Areas for Inclusion in Grantee Written Policies and Procedures

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

### Suggested Areas for Inclusion in Grantee Written Policies and Procedures

- C Procedures for reporting **obligated and deobligated costs** not recorded in the financial accounting system.
- C **Procurement and small purchases guidelines** and procedures need to be comprehensive. Procedures should include or specifically reference many of the more stringent requirements mandated by the Federal Government or by the State and local governments. Specifically, there should be written procedures that address items such as:
  - C Prohibition of “cost plus a percentage of cost” contracting methods.
  - C A requirement that procurement and small purchases are made on the basis of full and open competition.
  - C Cost or price analysis be performed for each procurement action.
  - C Profits be negotiated as a separate element in all contracts that allow for profit.
  - C Identification of procurements that require prior approval by DOL.
  - C Provisions prohibiting actions to break purchase quantities down into smaller components to circumvent more stringent procurement requirements.
  - C Requirements that Requests For Proposal (RFP) be announced in a publication that has general circulation in the competitive area.
- C A provision that **prohibits the construction or the purchase** of facilities, buildings or capital improvements using WtW funds.
- C Approval, acquisition, tracking, inventories and disposition requirements for equipment and supplies. Computer software/hardware must be **year 2000 compliant**.
- C Procedures to ensure that **physical inventories are conducted** and reconciled at least every 2 years.

### Suggested Areas for Inclusion in Grantee Written Policies and Procedures

- C Contractual procedures for **awarding contracts** to qualified subrecipients including debarment assurances and certifications provisions, Federal requirements that must be followed, CFDA numbers, statements of understanding and compliance, and record retention.
- C Procedures or a **manual for Management Information Systems (MIS)** controls, storage, access, verification of reported data, and tracing reported data to source documents.
- C **MIS contingency plan** for disasters and security risks.
- C **Monitoring procedures** for the grantee and subgrantee levels which includes reviewing WtW requirements, scheduling reviews, issuing reports, and resolving findings. Program procedures for reviewing TANF information to ensure it was taken within 6 months of eligibility determination; an assessment of skills, prior work experience and employability has been performed; work first has been implemented before services are provided; and only allowable activities have been provided. Financial monitoring procedures would include ensuring that at least 70 percent of the funds are spent on the hard-to-employ, administrative costs do not exceed the 15 percent or stated limitation, technology costs are within approved limitations, and all reported expenditures are allowable costs.
- C Grantee and subrecipient **audit and audit resolution responsibilities** under A-133.



Findings Matrix

Grantee	Finding 1			Finding 2		
	Inadequate Internal Controls Over Cost Limitations	Incomplete/ Inadequate Management Information Systems	Inadequate Internal Controls Over Financial Reporting	Lack of Formal Agreement with TANF Agencies	Lack of Formal Eligibility Procedures	Lack of Written Policies and Procedures
The Work Place, Inc.	x					x
Metropolitan Area Planning Co.	x					x
County of Union	x					
Hudson County	x					x
Non-Profit Assistance Corp.			x			x
Coalition for the Homeless	x	x	x	x		x
PIC of Philadelphia				x		
Resources for Human Dev.	x					x
Hampton Univ Career Adv.	x	x	x	x		x
Total Action Against Poverty	x	x	x	x		x
IAM Cares, Center for Adm.	x		x	x	x	x
The NOAH Group, LLC	x		x		x	x
The Institute for Responsible Fatherhood & Family Revital.						
Natl Assn of PICs			x			
CET	x		x	x		x
United Way of Central Alabama						x
Mayor's Office of Citizens E & T	x	x	x	x		x
Louisville & Jefferson PIC						
National Goodwill Industries-GA				x		x
Corporation for Ohio Appal.		x	x		x	x
River Valley Resources, Inc.						x
Detroit ETD	x					x
Bethel New Life			x		x	x
DePaul University	x		x	x	x	x
City of Chicago--The WFBoard	x	x				x
Indianapolis PIC	x	x		x	x	x
City of Little Rock					x	x
Houston Works		x	x			
Catholic Social Services - Alb.	x	x	x	x		x
National Goodwill Industries-TX	x	x	x	x	x	x
Rocky Mountain SER/Jobs for						
CHARO Alliance WtW	x		x	x	x	
PIC of San Francisco	x				x	x
The Cambodian Family	x				x	x
Oakland PIC	x	x		x	x	x
	22	11	16	14	12	27

Findings Matrix

Grantee	Grantee Operational (with enrollments) at Time of Audit	Finding 3 Potential Violations of the Fair Labor Standards Act	Finding 4 Non-compliance with the "Work-First" Requirement	Finding 5 Start-up Costs and Venture Capital Appears Improper	Finding 6 Single Unit Billings Circumvent Administrative Cost Limitations
The Work Place, Inc.	Y				
Metropolitan Area Planning Council	N				
County of Union	N				
Hudson County	Y				
Non-Profit Assistance Corporation	Y				
Coalition for the Homeless	Y	x	x		
PIC of Philadelphia	Y		x		
Resources for Human Development	N				
Hampton Univ Career Advancement Resil.	N		x		
Total Action Against Poverty	Y				
IAM Cares, Center for Administering Rehab.	Y				
The NOAH Group, LLC	N				
The Institute for Responsible Fatherhood	Y				
Natl Assn of PICs	Y				
CET	Y	x	x		x
United Way of Central Alabama	N				
Mayor's Office of Citizens Emplmt & Trg	N		x	x	
Louisville & Jefferson PIC	N				
National Goodwill Industries - Georgia	Y	x			
Corporation for Ohio Appalachian Devel.	N				
River Valley Resources, Inc.	Y				
Detroit ETD	N				
Bethel New Life	N				
DePaul University	N			x	
City of Chicago--The Workforce Board	N				
Indianapolis PIC	N				
City of Little Rock	N				
Houston Works	Y				
Catholic Social Services of Albuquerque, Inc.	Y				
National Goodwill Industries - Texas	Y				
Rocky Mountain SER/Jobs for Progress, Inc.	Y				
CHARO Alliance WtW	Y				
PIC of San Francisco	N				
The Cambodian Family	N				
Oakland PIC	N				
		3	5	2	1

**Complete Agency Response**



MAR 19 1999

MEMORANDUM FOR: JOHN J. GETEK

FROM:

RAYMOND L. BRAMUCCI *for*

SUBJECT:

ETA's Response to the Welfare-to-Work Competitive  
Grants Postaward Survey Results  
Draft Audit Report No. 05-99-008-03-315

The ETA is pleased with the finding that "overall the grantees reviewed possess the capability to deliver their WtW competitive grant programs..." Because one of the Secretary's goals in implementing this program is the involvement of nontraditional, community-centered service deliverers (many of which have never had a federal or Department of Labor grant before) the post award survey has been most helpful in identifying issues needing attention.

As we received our copies of each letter report that OIG sent to the grantees, we have taken action as necessary.

The following are general comments on the Draft Report:

1) On page 13 of the Draft report, under Minimum Hours of Work, second paragraph, the third sentence reads "The Department of Labor's policy guidance suggests that the number of hours established by a WtW grantee be consistent with the work requirements established by the TANF agency." The Office of Welfare-to-Work has been careful not to restrict, or in any way define, the number of hours of work required under the Welfare-to-Work program. We have, however, indicated that in the interests of coordination and recruitment of participants from TANF, grantees should be aware of TANF work requirements and take them into account when developing their programs. Encouraging grantees to take these requirements into consideration is very different from instructing grantees to follow rules that apply to another program. We would strongly encourage OIG to change their wording of this sentence in the report.

2) On several pages, especially in the Executive Summary, the total amount awarded to the 51 Round One WtW competitive grant is incorrect. Our staff has spoken with your staff to correct this, and we believe that we are in agreement as to the correct amount at this time.

ETA's specific comments on issues raised in the Draft Report are attached.

Attachment

**ETA's Comments  
On Office of Inspector General's  
Competitive Grants Post Award Survey**

**ISSUE # 1: Inadequate Internal Controls Govern Grantee Financial and Management Information Systems.**

- a) Inadequate Internal Controls Over Cost Limitations
- b) Incomplete/Inadequate Management Information Systems
- c) Inadequate Internal Controls over Financial Reporting

The Department will provide technical assistance to all WtW grantees (Formula and Competitive) through financial procedures training to be held in April. This training will be based on a new financial management technical assistance guide (TAG) which includes specific guidance on cost limitations and reporting. In addition, the TAG provides examples of charts of account that will assist grantees in formulating their own accounting systems to record costs by the line items required for reporting purposes. The TAG also emphasizes the need for internal controls on grantee accounting, MIS, and reporting systems. ETA is currently discussing with the contractor who will deliver the training, inclusion of information that will assist grantees in meeting the requirements to capture participant and financial information in MIS and accounting systems. Grantees will also be able to request on-site help from the contractor in dealing with their specific problems.

All WtW grantees are required to report expenditures in accordance with the OMB approved Quarterly Financial Status Report. Those instructions require reporting of expenditures for specified program activities for administration, and for computer hardware and software. They further require that total expenditures for the 70% required beneficiary and for the 30% other eligible individuals be tracked and reported separately. The Department will issue additional policy guidance which more fully explains the 70 percent minimum/30 percent maximum WtW cost limitations.

All WtW Formula Grantees (and a sample of their local level subgrantees) plus all 51 First Round Competitive Grantees and (in some cases) a portion of Second Round Competitive Grantees will be monitored by Regional and National Department of Labor Grant Officer's Technical Representatives. A check of reporting systems and ability to trace back to source documents is a part of that monitoring regimen.

The participant reporting package will be submitted to OMB for clearance next month. In the interim, this topic will be covered at the grantee orientation and training sessions. GOTR's will provide grantees (both Formula and Competitive) with an advisory on the nature and timing of the reports expected.

**ISSUE # 2: WtW Grantee Policies and Procedures Need Strengthening**

- a) Lack of Formal Agreements with TANF Agencies
- b) Lack of Formal Eligibility Procedures
- c) Lack of Written Policies and Procedures

The Departments of Labor and Health and Human Services will conduct a series of three TANF/WtW conferences (nationwide) to address procedural problems that exist between the two programs. The conferences will be held in Philadelphia, Chicago and Los Angeles. As a result of the conferences, DOL and HHS will issue similar guidance to both programs. It is anticipated that the development of formal written Memorandums of Understanding will be based on the elements of this guidance.

The Department will encourage grantees to establish formal, written procedures and will provide guidance both through a new financial management TAG and through the issuance of individual policies addressing specific topics. Further financial guidance and eligibility guidance will come as a result of the joint DOL/HHS conferences and from the Financial procedures training that will be held this spring.

**ISSUE # 3: Grantee Operations Contain Potential Violations of the Fair Labor Standards Act**

In those instances where possible Fair Labor Standards Act problems have been identified by OIG, WtW staff has already met with a team from the Department's Wage and Hour division. The findings were discussed and the affected Competitive Grantees have been contacted via conference call (where necessary) with Wage and Hour in order to outline corrective actions which the grantee must undertake. Regular monitoring by Grant Officer's Technical Representatives covering all Formula Grantees and all 51 First Round Competitive Grantees (to be completed by the end of this calendar year) is already underway. The Monitoring Guide which was designed for GOTR use addresses the minimum wage FLSA issue. Should problems be found, representative from Wage and Hour will advise us on corrective actions and have agreed to go on site if necessary. In addition, the official letter which transmits the grant execution packages sent to each WtW grantee (Formula and Competitive) contains bolded and underlined language

specifically mentioning the grantee's responsibility to adhere to all Federal statutes "including the Fair Labor Standards Act." Also, the Department of Labor publication "How Workplace Laws Apply To Welfare Recipients" has been posted on our Welfare-to-Work Website.

The Department's Wage and Hour division has joined us in our orientation training for all new competitive grantees. ETA held an orientation meeting for the 75 newly announced Competitive Grantees on March 3-5 in Baltimore. The Wage and Hour attended and provided a presentation on, discussed, and answered questions about grantee responsibilities under the minimum wage provisions of the FLSA.

ETA believes that these FLSA issues (which appeared in only 3 out of the 35 grantees surveyed) are exceptions to an otherwise well-informed group of program operators. Because of the nontraditional and "new to Department of Labor Grants" nature of most Competitive Grant recipients, it is not surprising that a few would need additional help in understanding their minimum wage responsibilities. ETA is providing this assistance along with our Wage and Hour Division.

It is not expected that these issues will be a substantial problem under our Formula Grants made to States and Private Industry Councils, all of which have experience with Department of Labor Grants and Federal workplace requirements. Our monitoring efforts should validate this expectation. If not, ETA is ready to intervene with Wage and Hour where necessary.

ETA believes that current regulatory language on the need to adhere to Federal Statute, coupled with the kinds of activities and products mentioned above, is sufficient regarding FLSA.

**ISSUE # 4: Grantees Need to Comply with Welfare-to-Work's "Work-First" Requirement.**

Based upon the extensive public consultations done prior to issuing Interim Final Regulations, the Department has sought to provide States and localities with maximum flexibility by letting them define terms in ways that make sense for their community. In addition, the WtW program is a part of TANF which holds as one of its basic tenets the empowerment of States and localities regarding definitions and program design. The Department of Labor's current policy guidance encourages grantees to take into consideration the work requirements established by the TANF agency when establishing the number of hours of work required under the Welfare-to-Work Program.

The work-first concept is addressed in each WtW Solicitation for Grant Award (SGA) that the Department has issued. Based upon OIG's finding, however, the Department will issue additional policy guidance which clarifies and illustrates (but does not define or prescribe a minimum number of hours) WtW work-first requirement. ETA is already working with those grantees which OIG identified as having a work-first issue to help them more closely reflect the intent of the legislation to have enrollees participate in substantial work activities prior to training and other post-employment services.

**ISSUE # 5: Proposed Use of Grant Funds for Business Start-up Operations and Venture Capital Appears Improper**

The Office of Welfare-to-Work will issue a policy prohibiting the use of WtW funds as business start-up costs and will work to restructure any existing projects that have used or intended to use WtW funds for these purposes. Preparations to start a business provided to eligible individuals as a job readiness activity, will, however, be allowed. In addition, when it is appropriate under an approved grant to pay for tools or machinery needed for a project, such costs are allowable under the OMB circulars with prior Grant Officer approval.

**ISSUE # 6: Single Unit Price Billings Circumvent WtW's Administrative Cost Limitation.**

The Department will work with the specific grantee to assure it accounts for and reports WtW expenditures to the benefiting cost categories and program activities in accordance with the WtW financial reporting instructions. The provisions in the approved grant agreement which allows this grantee to bill for short-term training when an individual refuses to return for training after initial placement by the grantee will be eliminated from the grant.