

July 31, 2000

MEMORANDUM FOR: RAYMOND L. BRAMUCCI
Assistant Secretary
for Employment and Training

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FROM: JOHN J. GETEK
Assistant Inspector General
for Audit

SUBJECT: Postaward Survey of the Johns Hopkins University, Institute for Policy Studies' Welfare-to-Work Competitive Grant
Final Letter Report No. 03-00-007-03-386

This final letter report provides the results of our postaward survey of the Johns Hopkins University, Institute for Policy Studies' (JHU-IPS) Welfare-to-Work (WtW) competitive grant. The purposes of our survey were to evaluate JHU-IPS's financial management and program systems, and to make an assessment of its capability to administer the WtW competitive grant. Our work was performed using a postaward survey guide designed by the Office of Inspector General to make an early assessment of JHU-IPS's program operations so that timely corrective action could be implemented to improve program performance and internal controls.

Overall, we concluded that the JHU-IPS has the capability, including the necessary financial management systems, to administer its WtW competitive grant. However, the survey did disclose that changes must be made in two areas related to reporting financial data on the WtW Financial Status Report (FSR) in order to comply with WtW regulations.

On May 25, 2000, we sent JHU-IPS' Principal Investigator and Program Manager a letter providing the results of our survey. Their written response to our letter is presented as an attachment. We agree with JHU-IPS' planned corrective actions and consider the findings to be resolved. To close the findings, evidence is needed that the corrective actions were implemented.

If you have any questions, please contact Roger B. Langsdale, Regional Inspector General for Audit, in Philadelphia at (215) 656-2300.

Background and Scope

On January 4, 1999, JHU-IPS was awarded a \$4.9 million WtW competitive grant. During the period March 13-24, 2000, we conducted an examination of JHU-IPS's financial and program systems for administering the WtW competitive grant. To accomplish our postaward survey, we examined specific WtW provisions promulgated through Title 20, Code of Federal Regulations (CFR), Part 645. We reviewed the grant agreement, project proposal, and operating procedures and policies. We also interviewed a number of key staff who were involved in developing and operating JHU-IPS's WtW program. Finally, we reviewed the operations of JHU-IPS's major subcontractor, Alignmark, and a third-tier service provider, Indian River Community College. Our survey did not include any testing of internal controls. We performed our work in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Findings and Recommendations

Overall, we concluded that the JHU-IPS has the capability, including the necessary financial management systems, to administer its WtW competitive grant. While quantitative performance measures have not yet been developed, we believe the JHU-IPS WtW model called the Career Transcript System (CTS) is innovative in concept with well-organized implementation and monitoring plans. The CTS is unique in developing certified employee skills which can be incorporated in the client's future employment resume. The CTS also utilizes both employee and job skills assessments as well as onsite monitoring of employer/employee requirements and needs. In our opinion, these approaches should enhance the client's probability of success in making the transition from welfare to work.

However, our survey found that changes must be made in two areas related to reporting financial data on the WtW FSR in order to comply with WtW regulations. The following provides details.

1. WtW Costs Must be Reported on the Accrual Basis of Accounting

The WtW regulations contained in 20 CFR Part 645.240(c) require that financial reports be submitted to the U.S. Department of Labor (DOL). The regulations further require that expenditures and program income be reported on the accrual basis of accounting by fiscal year of appropriation. The accrual basis of accounting recognizes revenues when earned and expenditures when incurred. The WtW regulations state that if the grantee's accounting records are not normally kept on the accrual basis of accounting, then accrual information should be developed through an analysis of the documentation on hand.

We found that JHU-IPS reported costs on the FSR using the cash basis of accounting rather than the required accrual basis of accounting. JHU-IPS budget officials told us that it was Johns Hopkins University's fiscal policy to report expenditures on a cash basis.

Recommendation

We recommend that the Assistant Secretary for Employment and Training require JHU-IPS to comply with WtW's accrual basis of accounting requirement by developing a system that will analyze WtW cost documentation and provide the necessary information so that accrual cost data will be available for WtW financial reporting purposes.

JHU-IPS Response

JHU-IPS officials stated that they will discuss the need to change from a cash reporting basis to the accrual basis of accounting with the University's accounting department. Unless JHU has a customized agreement with the Federal Government, a modified system will be developed to ensure that financial reporting meets Federal requirements.

OIG Conclusion

This recommendation is resolved and can be closed when the Assistant Secretary for Employment and Training provides evidence that the modified reporting system was implemented or that JHU has a customized agreement with the Federal Government.

2. Reported WtW Costs Must Comply with WtW's Cost Allocation Requirements

The WtW regulation in 20 CFR Part 645.211 requires that at least 70 percent of the awarded WtW funds be spent to benefit hard-to-employ individuals and no more than 30 percent of the awarded WtW funds be spent to assist individuals with long-term welfare dependence characteristics. The Summary and Explanation section of the WtW regulation cited above explains that this requirement does not apply to the proportion of WtW participants served, but rather, to the percentage of funds expended on the participants in each of the 70 and 30 percent category. To comply with this requirement, the DOL Employment and Training Administration's Technical Assistance Guide states that grantees must develop a mechanism to capture costs by participant categories. The Technical Assistance Guide further explains that the most effective method is to use separate codes in the chart of accounts and classification in the general ledger.

We found that JHU-IPS method for reporting local community college costs in the 70 and 30 percent categories does not comply with the WtW regulations. JHU-IPS allocated costs reported on the FSR based on the number of participants in the 70 and 30 percent categories. JHU-IPS must allocate costs based on the percentage of time spent on participants in each category.

The monthly activity reports submitted by the local community colleges provide the information needed to properly allocate costs to the 70 and 30 categories, but JHU-IPS did not use the reports to prepare its FSR. The monthly activity reports showed the amount of money spent serving clients in the 70 and 30 percent categories was based on the amount of time spent on each category.

Recommendation

In order to comply with WtW financial reporting requirements, we recommend that the Assistant Secretary for Employment and Training require JHU-IPS to change its method for reporting local community college costs to ensure that the costs are based on the amount of time spent on the participants rather than on the number of participants served. JHU-IPS must also amend prior FSRs so that they reflect costs properly allocated to the 70 and 30 percent categories.

JHU-IPS Response

JHU-IPS officials stated that they will use the monthly activity reports to show the amount of money spent serving clients to report spending on the FSR. The past FSRs will be revised to show this distribution, rather than using a method based on the number of clients in each category.

OIG Conclusion

This recommendation is resolved. To close the recommendation, evidence must be provided that the monthly activity reports were used to report spending on the FSR and that the prior FSRs were revised.

AUDITEE COMMENTS