

**Office of Inspector General**

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**U.S. Department of Labor  
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**The Dislocated Worker Program  
in a Growing Economy  
Audit Period: July 1, 1997 - June 30, 1998**

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**ACRONYMS**

BLS	Bureau of Labor Statistics
BRS	Basic Readjustment Services
CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
DREA	Disaster Relief Employment Assistance
DW	Dislocated Worker
EDWAA	Economic Dislocation and Worker Adjustment Assistance
ETA	Employment and Training Administration
FY	Fiscal Year
GPRA	Government Performance and Results Act
JTPA	Job Training Partnership Act
MIS	Management Information Systems
NAFTA	North American Free Trade Agreement
OJT	On-the-Job Training
PL	Public Law
PY	Program Year
RRA	Rapid Response Assistance
SPIR	Standardized Program Information Report
SSA	Substate Area
TAA	Trade Adjustment Assistance
TEGL	Training and Employment Guidance Letter
TEIN	Training and Employment Information Notice
UC	Unemployment Compensation
UI	Unemployment Insurance
US	United States
WIA	Workforce Investment Act
WIASRD	Workforce Investment Act Standardized Record Data

## **EXECUTIVE SUMMARY**

Employee layoffs and plant closings prompted Congress to establish the Dislocated Worker (DW) program through the Job Training Partnership Act's (JTPA) Title III provisions. Since 1982, state and local organizations have received billions of dollars to help dislocated workers qualify for and find new jobs. JTPA Title III, Parts A and B, authorize services to a broad population of dislocated workers. State and local governments are given wide latitude in interpreting the DW program's eligibility criteria and deciding what services participants will be offered.

We conducted an audit to determine if current policies and practices of the DW program resulted in the targeted population, as defined by JTPA, being served. To accomplish our objective, we selected a sample of 35 substate areas (SSAs) in 27 states and Puerto Rico. Our audit procedures included interviews with SSA officials, review of program files of 630 Title III participants, and analytical procedures as we determined necessary to meet our objectives. Our audit objectives did not include determining the overall effectiveness of the program.

In determining participant eligibility, we applied, to the extent possible, criteria contained in the Act, implementing regulations and program guidance issued by the Employment and Training Administration (ETA). Where the Act, regulations and ETA guidance were not prescriptive with regard to certain eligibility issues, we established what we consider reasonable benchmarks which are explained in the relevant sections of this report.

### **Program**

Based on our audit results, we question whether 35 percent of the participants served as dislocated workers during Program Year (PY) 1997 were eligible for assistance or were otherwise individuals Congress intended the program serve. Evidence that service providers had adequately determined participants' eligibility was often missing. In addition, we found instances of broad interpretations of eligibility requirements by service providers, including enrollments of people who were likely to return to similar occupations, had left itinerant or temporary jobs, were fired for cause, were full-time students or had voluntarily retired. We believe an allocation methodology that may not distribute funds to where they are most needed may have contributed to broadly applied eligibility interpretations.

We also found programs that were not predominantly serving persons who fit the "traditional" notion of a dislocated worker, that is, victims of plant closings or mass layoffs. In fact, at 5 of the 35 sites we visited, over 40 percent of program participants were long-term unemployed. As discussed in the

report's conclusion, although certain long-term unemployed individuals were eligible under JTPA, the long-term unemployed are not eligible to be served by the DW program under the Workforce Investment Act, which replaces JTPA as of July 1, 2000, unless they are eligible under other DW program criteria.

Our concerns with eligibility are not intended to suggest that many persons served by the DW program, regardless of whether they satisfied program eligibility requirements, did not benefit from the DW program. Although not within the scope of our audit, we observed many examples in which participants were provided quality training that resulted in their obtaining employment in the fields in which they received instruction. Rather, our concern is with adequately defining the target population to be served. Guidance is needed to ensure the DW program concentrates on persons who are out of work because of reduced demand for specific jobs or the obsolescence of specific skills, rather than the general unemployed. We believe the guidance should be coupled with an allocation process that distributes program funds where they are most needed.

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**Program**

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We also identified a need to improve the accuracy and completeness of data used to evaluate program activities and fulfill the Department's reporting requirements under the Government Performance and Results Act (GPRA).

Program data reported by states to ETA through the Department's Standardized Program Information Report (SPIR) system were often incomplete or in error. As a result, the key measure of participants' success in obtaining unsubsidized employment upon termination from the program, deemed the "entered employment rate," may have been materially overstated. ETA reported that the PY 1997 "entered employment rate" for all Title III activities was 68 percent. After adjusting for errors and omissions found in the data sampled, we statistically estimate the program's entered employment rate was 53 percent.

We estimate that 81 percent of the records that comprise the PY 1997 SPIR contain errors in one or more reported data elements. The errors affected key data, including measures of participants' wages, training activities, and successes in obtaining jobs.

The causes of errors were numerous and included carelessness in entering data, problems with software used by individual entities to accumulate the data for transfer into SPIR, intentional use of "plug" figures and omission of pertinent information.

## Conclusion

The Workforce Investment Act (WIA) replaces JTPA effective July 1, 2000. As with JTPA, Congress included a separately-funded WIA component which is to be used exclusively for services to dislocated workers. While certain displaced homemakers are eligible under WIA's DW program, the long-term unemployed – one-third of those served by the PY 1997 JTPA DW program – are not eligible dislocated workers under WIA. Instead, the long-term unemployed may receive services under WIA's "Adult" program.

To ensure funds appropriated for dislocated workers reach them, we believe better guidance is needed in defining the population to be served. In addition, improved means for allocating funds to areas of need are essential.

Reliable program information is more critical to WIA's success than to the JTPA's. WIA's provisions base monetary incentives and sanctions for states, service providers, and vendors on entities' successes in serving participants. In addition, the number and variety of mandatory performance measures that will be used to gauge WIA programs' performance have been expanded. Consequently, program information must be accurate and complete.

In a meeting on May 31, 2000, the Assistant Secretary for Employment and Training stated his view that state and local Title III recipients had exercised flexibility as intended by Congress in delivering workforce services to meet local needs. He believed this flexibility extended to state and local discretion in establishing criteria for determining eligibility for JTPA Title III dislocated worker programs. ETA acknowledged that as this flexibility increases under WIA, so will the value of increased monitoring and technical assistance. Accordingly, ETA plans to increase its dislocated worker program technical assistance and monitoring activities.

## Recommendations

We recommend the Assistant Secretary for Employment and Training:

- Ensure adequate guidance is provided to states so that the files of participants who are certified for intensive services under WIA contain adequate information to qualify them as dislocated workers and entitle them to services deemed necessary to return them to the workforce.

- Determine if a more equitable method of allocating DW funds can be devised which would result in funds being distributed to areas where the most dislocated workers reside.

We also recommend the Assistant Secretary require ETA staff complete periodic, comprehensive quality review and oversight of data entered into participant information systems to ensure placements are valid and data are entered in accordance with program guidance and are otherwise accurate and complete. The reviews should be completed at the point-of-entry and at entities responsible for consolidating the information.

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**ETA's Comments**

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While ETA generally agreed with some of our recommendations, they did not agree with the procedures we employed, the meaning of data presented in the report or many of the conclusions we reached.

According to ETA, the report does not adequately consider the authority granted state and local governments or the need for flexibility in addressing local labor market conditions. ETA believes this flexibility extended to state and local discretion in establishing criteria for determining JTPA Title III program eligibility.

ETA agreed to work with state and local governments in ensuring files adequately document participants' eligibility and plans to increase DW program technical assistance and monitoring activities. However, the comments do not indicate agreement that additional guidance on program eligibility is needed. ETA did indicate a review of the DW program's distribution formula may be completed as part of a mandated review of WIA allocation formula for the adult program.

Regarding the accuracy of data, ETA cited recent initiatives to improve the accuracy of JTPA program data and indicated it will increase its efforts to ensure WIA program data is complete and correct. ETA believes the use of Unemployment Insurance (UI) wage records to capture WIA participant outcome information will also help eliminate some errors identified in our review.

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**Analysis of  
ETA's Comments**

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We continue to believe clearer guidance is needed to define the target population and ensure persons served by the DW program are those Congress intended to receive assistance. We believe better guidance can be provided program operators without sacrificing state and local flexibility in designing or delivering programs. To ensure funds

appropriated for dislocated workers reach them, improved means for allocating funds to areas of need are essential. Finally, accurate information is critical to evaluate the program's effectiveness.



## BACKGROUND AND PRINCIPAL CRITERIA

### Backgro

The DW program is authorized by Title III of JTPA (P.L. 97-300, dated October 1982, as amended). The program is administered by ETA in partnership with the states. Eighty percent of the funds appropriated for this program is required to be allocated among states according to the following formula:

- one-third of the funds allocated based upon the number of unemployed persons in each state;
- one-third of the funds allocated based upon the excess number of unemployed persons in each state. (Excess is defined as the number of unemployed in excess of 4.5 percent of the labor force in each state); and
- one-third of the funds allocated based on the number of persons who have been unemployed for 15 weeks or more.

JTPA authorizes Governors to allocate dislocated worker funds among several sets of activities.

Up to 40 percent may be reserved for State activities and Substate Grantees in need, including:

- C State administration, technical assistance, and coordination of dislocated worker programs;
- C statewide, regional, or industry wide projects;
- C rapid response activities;
- C coordination between the unemployment compensation and worker adjustment systems; and
- C discretionary allocation to provide additional assistance to local areas that experience substantial increases in the number of dislocated workers.

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Up to 10 percent may be reserved by the Governor for allocation among substate grantees on the basis of need, to be distributed not later than 9 months after the beginning of the program year.

A minimum of 50 percent to be allocated among substate areas based on a formula prescribed by the Governor. The statute requires that the formula utilize the most appropriate information available to distribute amounts to address the State's worker readjustment needs. The formula must include the following six factors as required by law, but the statute does not assign specific weights to these factors nor does it prohibit the inclusion of other factors that might be appropriate:

- C insured unemployment data;
- C unemployment concentrations;
- C plant closing and mass layoff data;
- C farmer-rancher economic hardship data; and
- C long-term unemployment data.

The remaining 20 percent of the funds appropriated are reserved for the Secretary to fund the activities described below:

- (1) Mass layoffs, including mass layoffs caused by natural disasters or Federal actions when the workers are not expected to return to their previous occupations.
- (2) Industry-wide projects.
- (3) Multistate projects.
- (4) Special projects carried out through agreements with Indian tribal entities.
- (5) Special projects to address national or regional concerns.
- (6) Demonstration projects.
- (7) Additional financial assistance to programs and activities provided by states and substate grantees.

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- (8) Additional assistance under proposals for financial assistance that are submitted and approved by the Secretary after consultation with the Governor of the State in which the project is to operate.

The amounts reserved for use by the Secretary also may be used to provide services whenever the Secretary determines that an emergency exists with respect to a distressed industry or a distressed area. The funds may also be used for staff training or technical assistance and training of rapid response staffs. JTPA also provides that excess funds be recaptured by the Secretary and reallocated among eligible states after the conclusion of each program year. Excess funds are defined as those in excess of 20 percent of the prior year's allotment. Governors are required to prescribe uniform procedures for the expenditure of funds by substate grantees in order to avoid reallocation.

Beginning in FY 1996, DOL appropriations have permitted SSAs to transfer up to 20 percent of their allocations between Title II-A and Title III.

JTPA expires on June 30, 2000, and is replaced by WIA (P.L. 105-220). The DW program is continued under WIA. Adults and dislocated workers will obtain core services, such as initial assessment and job search, through a locally-established one-stop delivery system. Individuals who meet WIA's definition of "dislocated workers" may be enrolled in the DW program, if they have not been able to obtain employment after they have received core services and have been determined in need of more intensive services. Intensive services include specialized assessments, diagnostic testing, development of an individual employment plan, and case management for those seeking training.

### Principal Criteria

The DW program's participant eligibility requirements are found in the JTPA, Title III, Section 301. Eligible dislocated workers are defined as persons who:

- have been terminated or been laid off, or who have received a notice of termination or layoff from employment, are eligible for or have exhausted their entitlement to unemployment compensation (UC),<sup>1</sup> and are unlikely to return to their previous industry or occupations;

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<sup>1</sup>The JTPA regulations at 20 CFR 631.3(a) provide that the term "eligible for unemployment compensation" includes individuals whose wages would be considered in determining eligibility for unemployment compensation under Federal or state laws. A similar provision is included in the WIA definition of dislocated worker.

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- have been terminated or have received a notice of termination of employment as a result of any permanent closure of or any substantial layoff at a plant, facility, or enterprise;
- are the long-term unemployed and have limited opportunities for employment or reemployment in the same or a similar occupation in the area in which such individuals reside, including older individuals who may have substantial barriers to employment by reason of age; or
- were self-employed (including farmers and ranchers) and are unemployed as a result of general economic conditions in the community in which they reside or because of natural disasters, subject to regulations prescribed by the Secretary.

JTPA Section 314(h) states that workers at a facility whose employer has made a public announcement that the facility will close, but who have not received specific notice of termination or layoff, may be provided certain specified services (except for those workers likely to remain employed with the same employer or who retire without seeking new employment).

In addition, UI claimants who have been profiled and referred for reemployment services may be served under Title III if a Governor has issued a policy that “likely to exhaust” meets the criteria for “unlikely to return.” The concept was initiated in an attempt to provide early intervention to those profiled as such. It is intended that the DW program assist participants’ reentry into the job market as soon as possible and, in the process, reduce UC benefit payments. Section 20 CFR 631 describes allowable activities of the DW program. State and local governments are given wide latitude in interpreting the DW program’s eligibility criteria and deciding what services participants will be offered.

Under WIA, assistance to dislocated workers is continued through a separately-funded program. Participant eligibility criteria are nearly identical to those under the JTPA’s DW program, except that the long-term unemployed are no longer defined as eligible dislocated workers. However, displaced homemakers have been elevated in status from “optional” under JTPA to an eligible target group under WIA. The long-term unemployed may receive services from WIA’s Adult program component.

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## FINDINGS AND RECOMMENDATIONS

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### CHAPTER I - THE ELIGIBILITY OF MANY SERVED BY THE TITLE III PROGRAM WAS NOT ADEQUATELY DEMONSTRATED

The DW program was authorized by Title III of JTPA (P.L. 97-300, dated October 1982), in response to the growing number of layoffs in heavy industries in the late 1970s and early 1980s. Many industries, including steel and automotive manufacturing, were undergoing tremendous upheavals, and it was recognized that many of the unemployed workers in these industries were unlikely to return to the same jobs and needed retraining to obtain jobs with comparable wages.

The economy has experienced unprecedented growth during the past decade. In August 1998, the Bureau of Labor Statistics (BLS) reported that the number of workers displaced from jobs they had held at least 3 years had declined from 4.2 million in the period January 1993 to December 1995 to 3.6 million in the period January 1995 through December 1997. However, dislocations continue to occur, and Congress sees a need to provide affected workers who are unlikely to return to similar occupations with assistance in preparing for reentry into the workforce.<sup>2</sup>

The definition of dislocated workers under JTPA Title III programs has been broadly interpreted. We project that 35 percent of the participants served by the program either did not meet requirements for participation or documentation in their files was inadequate to establish their eligibility.

We found service providers did not sufficiently observe requirements to evaluate whether individuals had a job of dislocation or prospects of returning to similar work. Other persons whose eligibility was questionable for a variety of reasons were also enrolled.

The Title III allocation formula does not ensure funds are distributed to areas where dislocated workers most need assistance. The allocation formula is based upon levels of unemployment which ensure that

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<sup>2</sup>In addition to the DW program, Labor administers the Trade Adjustment Assistance (TAA) and North American Free Trade Agreement/Transitional Adjustment Assistance (NAFTA/TAA) programs. The TAA and NAFTA/TAA programs provide services, training, relocation assistance and trade readjustment allowances to individuals who are unemployed because of increased imports of foreign products. NAFTA/TAA serves persons impacted as a direct or indirect result of import from Canada or Mexico. Participants may be jointly enrolled in the DW program and either TAA or NAFTA/TAA programs; however, jointly enrolled participants represent an insignificant portion of DW program participants discussed in this report.

each state and SSA receives a minimum amount of funds, regardless of the potential for plant closures or mass layoffs.

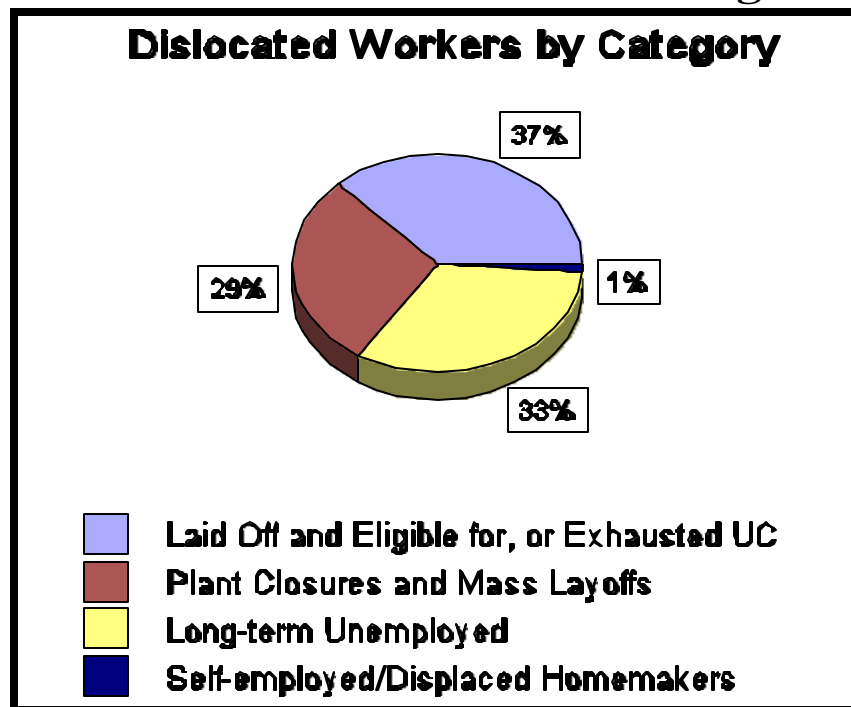
With the passage of the WIA, some adjustments have been made to definitions of eligible groups the DW program intends to serve. However, dedicated funding is still provided for the DW program, and eligibility requirements for the remaining target groups are virtually unchanged.

**Numerous Groups  
Are  
Served by the  
Program**

JTPA Title III identifies eligible groups that include victims of plant closings and substantial layoffs; the long-term unemployed with limited opportunities for employment in the same occupation and area; those who have been laid off and are eligible for, receiving or have exhausted unemployment benefits; the self-employed whose livelihood has been affected by general economic conditions; and displaced homemakers. In

addition to those individuals who seek assistance, state agencies refer UI recipients to the DW program who have been “profiled” as likely to exhaust their benefits.<sup>3</sup>

Figure 1



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<sup>3</sup>We reviewed profiled cases using the same criteria as other cases in our sample. The service providers generally treated profiled participants as automatically eligible, although some participants we questioned had been profiled.

Figure 1 illustrates the composition of persons served during PY 1997, as projected from our sample of 630 program participants at the 35 sites we visited.<sup>4</sup> We have grouped them into four major categories related to program eligibility criteria.

As shown, those who were laid off, eligible for or exhausted UC comprised 37 percent of the dislocated workers in our sample. Victims of plant closures and mass layoffs accounted for 29 percent. The long-term unemployed were 33 percent of our sample.

### Eligibility Was Not Demonstrated for 35

Based on our projections, we question whether 35 percent of the participants should have been served by the DW program during PY 1997.

As depicted in Figure 2 on the following page:

- Twenty-one percent of the participants' files lacked sufficient evidence that service providers considered participants' prospects of returning to previous occupations or industries from which they were displaced.<sup>5</sup> Participants in this category were displaced from high-demand jobs, suggesting they may be capable of returning to their previous occupations.
- Twelve percent of participants had been employed for short periods of time before they quit or lost their jobs, did not have a legitimate job of dislocation, and had not established their attachment to the workforce.
- Eighteen percent of participants served were questioned for other reasons, which included persons fired for cause, those who voluntarily quit their jobs, retirees and temporary workers.

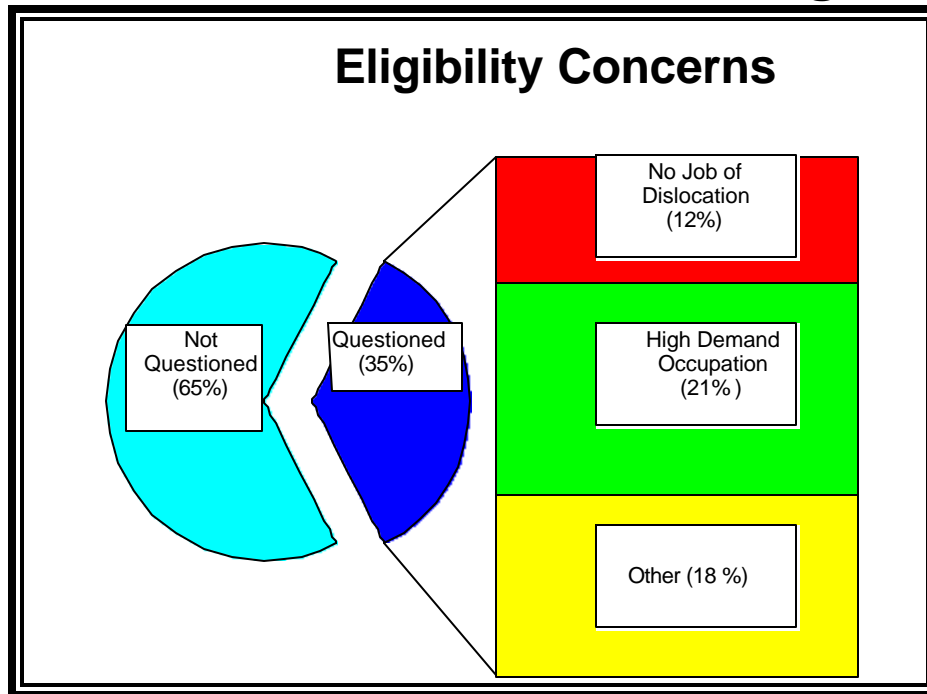
**Twenty-one Percent of Participants' Job Prospects Were Not Adequately Evaluated.** Often SSAs did not establish whether persons they served were capable of finding jobs in similar occupations.

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<sup>4</sup>Unless otherwise indicated, percentages shown throughout the report are point estimates obtained from projections of our sample results of some 630 program participants at the 35 sites we visited. For a discussion of the sampling methodology and precision achieved, see the Objectives, Scope and Methodology section of the report and also Exhibit A.

<sup>5</sup>The total of the individual categories exceeds 35 percent because some participants' eligibility was questioned for more than one reason. Seven participants were employed in high-demand occupations less than 6 months and were classified as both high demand and no job of dislocation. Twenty-six participants were questioned because of the high demand occupation issue and other issues. Finally, 10 participants were questioned because of the job of dislocation issue and other issues.

Figure 2



The JTPA makes a key distinction in the definition of eligible dislocated workers between persons who have lost their jobs because of the permanent closures of facilities or substantial layoffs, and persons who are eligible for or have exhausted their UC entitlement. JTPA Section 301(A) requires individuals in the UC category to also be “. . . unlikely to return to their previous industry or occupation. . . .”

Similar language in Section 301(C) indicates that to be eligible, the long-term unemployed “. . . must have limited opportunities for employment or reemployment in the same or similar occupation in the area in which such individuals reside.” Hence, persons can be unemployed, eligible for UC and not eligible for the DW program, if they have good prospects for finding similar employment. This determination is critical in deciding whether an individual is a dislocated worker or merely unemployed.

Some SSAs we visited did make efforts to evaluate participants’ opportunities. Among those sites where adequate identification of employment prospects was a concern to us, 18 percent had made substantial efforts to establish that the individuals were unlikely to return to the same or similar occupations. For example, they compared individuals’ qualifications to job orders listed with the State Employment Security Agencies, or required applicants as part of the DW program application process to identify job search efforts they had attempted. However, at most SSAs, we found no evidence that such actions took place.



We project that 21 percent of the participants had lost jobs that were considered in high demand in the area they resided. We used listings of high-demand occupations identified for each area through the JTPA planning process to determine if individuals' occupations in their jobs of dislocation were in high demand. We considered participants' prospects of returning to their previous occupations good if their jobs of dislocation matched the high-demand occupations listed and there were no extenuating circumstances. Such circumstances included participants' age or health if they would have prevented them from returning to similar work. Examples of participants who possessed high-demand skills included in our sample were experienced medical personnel and secretaries.

**Twelve Percent of Participants Did Not Have Bona Fide Jobs of Dislocation.** It is implicit that a qualified dislocated worker had a job from which he or she was dislocated. However, neither the JTPA nor program regulations address the period of time a dislocated worker should be employed to qualify for assistance under any of the program's categories. Moreover, ETA has not issued guidance.

Jobs of dislocation claimed for participants were often of short duration. One participant in our sample was employed in what was identified as a job of dislocation that lasted only 1 day. One SSA we visited did not identify jobs of dislocation for 12 of the 18 participants we sampled.

We project that 12 percent of program participants did not have bona fide jobs of dislocation.<sup>6</sup> We evaluated the length of time sampled participants were employed in positions identified as their jobs of dislocation and their previous work histories and decided whether these factors indicated they had established a legitimate job of displacement. Generally, we considered applicants to have established jobs of dislocation if they had worked for employers 6 months or more. We did not question any participant with a stable work history, regardless of the skill-level his/her job may have entailed. For example, we did not question the eligibility of individuals employed in the fast-food service industry for more than 6 months before they were laid off.

Examples of some participants' jobs of dislocation and their duration with which we took issue include:

- A 16 year-old participant reported working 1 hour per week during 1 summer month mowing lawns. The landscape work was cited as the participant's job of dislocation.
- A participant was laid off as a breakfast cook after 3 months on the job. The participant's work history consisted of a series of short-term jobs in unrelated occupations with no indication he had held a bona fide job of dislocation.

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<sup>6</sup>A large proportion of dislocated workers served by SSAs in our sample had been in their jobs of dislocation for short periods of time. About 28 percent of those in our sample were employed less than one year, 15 percent less than 6 months and 7 percent less than 3 months.

- A participant’s job of dislocation was a bilingual collection representative at which he was employed for less than 1 month. Also, the individual was fired for cause.
- A participant’s job of dislocation was that of a retail cashier, a position she had held for only 10 days before being laid off.

**Eighteen Percent of Participant Enrollments Were Questioned for a Variety of Other Reasons.** Based on our projections, 18 percent of participants in the laid off and eligible for or exhausted UC category had voluntarily quit their jobs, were fired for cause, had voluntarily retired, or were already full-time students at the time of program enrollment.

SSAs in our sample enrolled individuals into the program whom they should have identified as not satisfying the program’s eligibility criteria. For example, an SSA enrolled an individual who was categorized as “laid-off and eligible for or exhausted” UC. Supporting documentation indicated the participant was not laid off but had voluntarily quit his job because of extensive travel requirements. We also found examples of files that indicated the participants had voluntarily quit or had been fired from their previous jobs, yet they were deemed eligible under the UC, plant closure or substantial layoff criteria. Finally, we identified participants who were admitted to the program under the plant closure or substantial layoff criteria, although they had voluntarily retired from their jobs.

We also had concerns with a program for which ETA provided funds from the National Reserve Account. In one grant, National Reserve funds were used to provide services to 266 temporary workers. Many of the individuals were welders hired at an automotive plant to complete projects within a 2-year period, after which robotic welders were to come on-line and displace the workers. The company classified the jobs as (full-time) temporary and did not provide the workers with fringe benefits afforded permanent employees. The workers were advised the jobs were temporary at the time they accepted them. We do not believe Title III funds should have been used to serve workers who were hired with the understanding that the jobs were temporary.

**Allocation  
Methodology May  
Not Distribute Funds**

Eighty percent of JTPA Title III funds is distributed to states and substate areas through application of a formula as discussed in the Background and Principal Criteria section of this report. The formula is based upon various unemployment measures that do not consider the numbers of dislocated workers who need assistance nor the

potential for plant closings or mass layoffs. Title III funds are allocated by the states to SSAs in a similar manner as also discussed in the Background and Principal Criteria section.

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The appropriations process results in substantial differences in DW program funds allocated to the states. We divided the \$1 billion appropriated through the PY 1997 formula distribution process<sup>7</sup> by the numbers of participants each state reported as terminated from the program. As shown in Exhibit C, the average amount of funds available for each person who terminated from the program ranged from \$1,203 in Georgia to over \$20,000 in the District of Columbia.

The wide range in available funds may be partially explained by differences in local conditions, client populations and service delivery approaches. However, the District of Columbia had a relatively high unemployment rate but few dislocated workers and returned over \$1 million of excess Title III funds in PY 1997.<sup>8</sup>

In PY 1997, a net total of \$28.8 million was transferred from Title III to Title II-A by 22 state entities that did not spend all the Title III funds they were allocated. (An additional 11 state entities shifted funds from Title II-A to Title III.) California shifted \$12.7 million from Title III to Title II-A for distribution among its SSAs. In PY 1997, Florida transferred a total of \$7 million (\$4 million of PY 1997 and \$3 million of PY 1996 funds) from Title III funds to Title II-A. In addition, the State returned over \$3.4 million, or 7 percent, of its PY 1997 allocation to the Secretary for reallocation.

JTPA and program regulations require recapture of excess funds. However, each DOL appropriation since FY 1996 has allowed Governors to authorize SSAs to shift up to 20 percent of formula allocated funds between Title II-A and Title III. For example, one SSA in our sample spent only 43 percent of available funds. This SSA transferred 20 percent to the JTPA Title II-A program, carried forward 15 percent to the next program year, and returned the remainder to the Governor for redistribution. The grantee explained that, while they continued to experience incidents of worker dislocations, the incidences were fewer and smaller in size. This same grantee, in its operational plan modification, commented:

*The dislocated worker today more often qualifies as a long-term unemployed individual, as compared to those who qualified as recently terminated and unlikely to return to previous occupation or industry. Today, these Title III eligible individuals choose to seek immediate employment and/or short-term training. They do not want to*

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<sup>7</sup>Funds that are allotted to states by formula include base and Governor Reserve amounts. National Reserve funds are used to provide assistance to areas experiencing plant closings and mass layoffs, dislocations caused by Federal actions, foreign trade and natural disasters. These funds are awarded in response to grant applications and also support DW demonstration projects and technical assistance activities. In PY 1997 they totaled \$249 million and were excluded from our calculations.

<sup>8</sup>It should be noted that the number of program terminees does not reflect participants enrolled but not yet terminated, nor does it include persons who were not enrolled but received services under state rapid response activities. Under WIA, some dislocated workers may also receive unassisted core services without being enrolled in the program.

## The Dislocated Worker Program in a Growing Economy

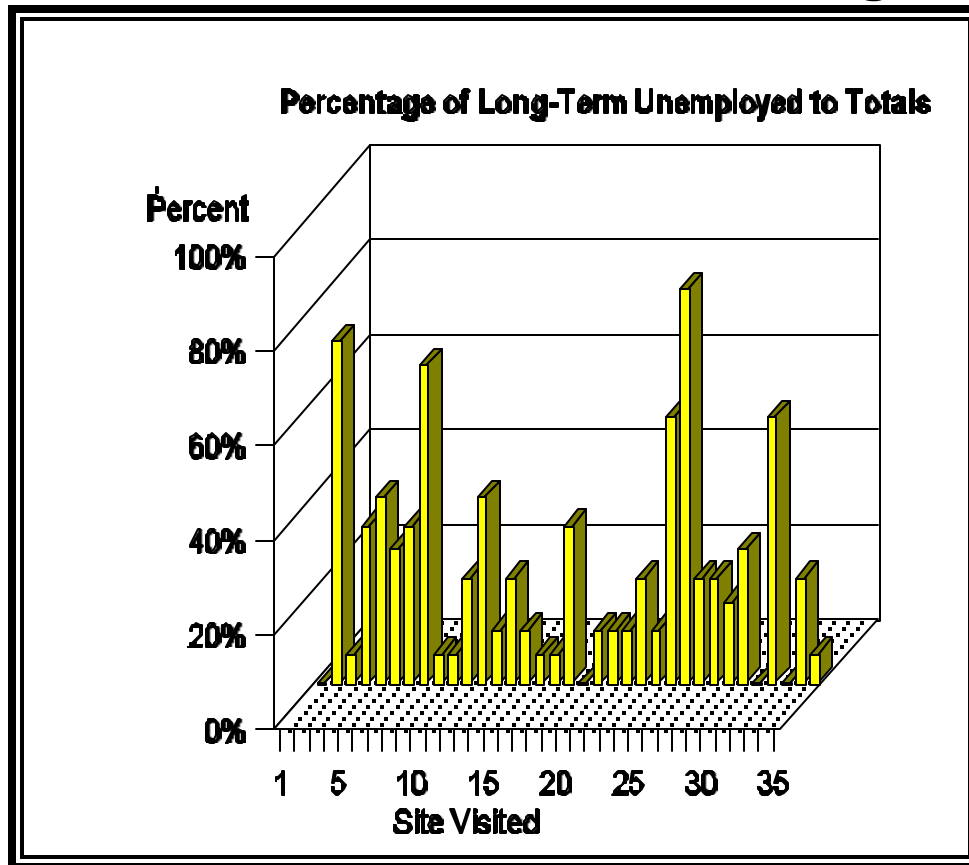
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*enter into long-term training situations that takes them out of the workplace for extended periods of time as it creates economic hardships on their families.*

This provider indicated that they had fewer dislocated worker clients to serve, and those requiring services were only interested in short-term, less expensive service. Thus, less Title III funding was needed.

While some excess grant funds are returned, we believe both state and local governments are reluctant to return surpluses. Instead, some entities relaxed eligibility criteria to spend available dollars. To illustrate, most localities required an individual be unemployed for 15 weeks or more to be considered long-term unemployed. The 15-week criteria are consistent

Figure 3



with the formula used to allocate annual appropriations. However, one state in our sample reduced the time necessary to qualify as long-term unemployed to 8 or more weeks. Most participants served by the DW program were considered long-term unemployed under the state's definition. Only 11 percent (2 of the 18 participants) sampled at this site had lost their jobs because of plant closures or substantial layoffs.

Further, in many of the locations we visited, few major industries existed and those served by DW programs were not the victims of plant closings or mass layoffs. As shown in Figure 3, at 10 of the 35 SSAs we visited, more than 20 percent of terminees were long-term unemployed; this includes 5 sites where over 40 percent of the terminees were long-term unemployed. Overall, we estimate 33 percent of the participants served during PY 1997 were long-term unemployed.

We believe the level of Title III funding in some locations and a funding allocation system that does not direct funds to where they are most needed may have contributed to the broad application of program eligibility requirements.

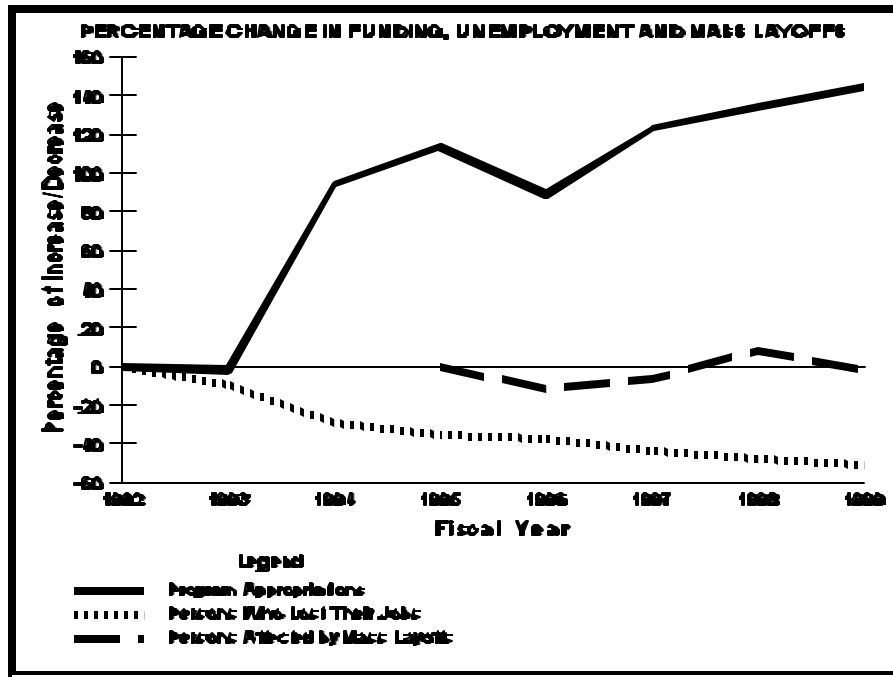
**Funding for DW Programs Has Increased During a Period of Economic Growth.** Increased Title III funding and a robust economy may have also influenced service providers to enroll participants not traditionally served by the program. Funding for the DW program has increased from 1992 levels of \$577 million to \$1.6 billion in PY 2000. However, a variety of sources indicate that during the period, persons displaced from jobs and the unemployment rate have sharply declined. For example, in August 1998, BLS reported that the number of workers displaced from jobs they had held at least 3 years had declined from 4.2 million in the period January 1993 to December 1995 to 3.6 million in the period January 1995 through December 1997.

Figure 4 illustrates recent trends in Title III program funding, mass layoffs, and persons who have lost their jobs. It compares the percentages of increases and decreases in: (1) Title III appropriations, (2) the number of persons affected by mass layoffs, from FY 1995 through FY 1999, using FY 1995 as the base year,<sup>9</sup> and (3) the number of persons who lost their jobs, from FY 1992 through FY 1999, using FY 1992 as the base year.

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<sup>9</sup>BLS did not capture comparable data on persons affected by mass layoffs from FY 1992 through FY 1994. Consequently, trends for all three measures could not be presented prior to 1995. The number of persons unemployed during the same period was substantially higher than the number that lost their jobs, although those unemployed also plummeted from 9.6 million in FY 1992 to 6.2 million in FY 1998. We have presented "persons who lost their jobs," because, according to BLS, they do not include certain categories of the unemployed such as persons under 16, first time entrants into the labor force, or persons who voluntarily quit their jobs.

Figure 4



Source: Unemployment Data, BLS. See Exhibit B.

As detailed in Exhibit B, Title III funding rose sharply from \$577 million in FY 1992 to about \$1.4 billion by FY 1999, an increase of over 140 percent. In contrast, the Bureau of Labor Statistics (BLS) reported the number of persons who lost their jobs plummeted from 5.3 to 2.6 million during the same period, a decrease of 50 percent. On the other hand, the number of persons affected by mass layoffs had remained relatively constant but dropped in 1999 to about 1995 levels. In FY 1995, about 1.6 million people were affected by mass layoffs. In FY 1999, the number had returned to the same 1.6 million level.

The Department's Office of the Chief Economist echoes BLS' findings. The numbers of persons displaced in recent years have dramatically decreased from those of the early 1990s. According to the economists, the displacement rate for workers with 3 or more years of tenure was 3.9 percent in the 1991-92 period and fell to 2.9 percent in the 1995-96 period. Because new jobs have outnumbered the volume of job losses, both the rate of reemployment and earnings after reemployment have been higher in the 1990s than at any comparable points in

the 1980s.<sup>10</sup> The economists also report a net total of 20 million jobs were added during the period January 1993 through November 1999. Further, it was reported that, “*The 20 million jobs created since January 1993 have overwhelmingly been good jobs.*”

### Passage of the WIA Creates Additional

separately funded

PY 2000 funding for the DW program has reached an all time high of \$1.6 billion. By July 1, 2000, WIA will have replaced JTPA across the country. Under WIA’s provisions, the long-term unemployed, who represented one-third of PY 1997 participants served under Title III, will no longer be eligible for assistance as dislocated workers. Instead, the long-term unemployed have been absorbed into WIA’s “Adult” program.

However, displaced homemakers are an eligible target group under WIA’s DW program. Displaced homemakers could be served under JTPA only if the governor determined that assisting them would not adversely affect services to other eligible groups. The JTPA’s definition of a displaced worker encompassed both recipients of public assistance under Aid for Families with Dependent Children and persons dependent upon another family member’s income. WIA’s definition of displaced homemakers is limited only to persons who are dependent upon another family member’s income and have lost that source of income. Persons dependent upon public assistance may be served by WIA’s Adult program.

Although WIA has made changes to the groups eligible for DW program assistance, grant monies will be apportioned using the same formula applied to JTPA Title III funds. The formula contains measures that include the proportion of long-term unemployed, yet they are no longer defined as eligible dislocated workers.

We note that the Department’s FY 2001 budget request includes \$1.8 billion for the DW program. Without adjustments to the allocation process, we believe funds may not be distributed where they are most needed.

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<sup>10</sup>“20 Million Jobs: January 1993 - November 1999, A Report by the Council Economic Advisors and the Office of the Chief Economist”, U.S. Department of Labor, December 1999”

## CHAPTER II - THE ACCURACY OF REPORTED PROGRAM AND PERFORMANCE DATA REQUIRES IMPROVEMENT

Data on several key DW programs' activities contained in the SPIR were materially inaccurate. A variety of problems, including inattention to data entry procedures, errors and omissions, have compromised reported program results.

The SPIR is a system administered by ETA that provides data file formats and record layouts which states can use to electronically transfer JTPA-related data from their management information systems (MIS) into the SPIR. Although each state's MIS is unique, all the states avail themselves of this arrangement. Therefore, if data are missing or in error in the SPIR, the same problem is likely to be present in an entity's MIS.

Data are captured in the SPIR when a participant is terminated from JTPA. Therefore, the SPIR for any program year contains a record of all services received by participants terminated from JTPA programs in that year, including those who may have been enrolled in current or past years. SPIR data are used for a variety of purposes. They are a source of information for social research, the basis for states and ETA to evaluate the JTPA programs' effectiveness, and the means for ETA to gather information on performance measures as required by the GPRA.

### **Measures of Program Success May Have Been Materially Overstated**

The single mandatory PY 1997 national performance standard under the DW program was the "entered employment rate," which measures participants' success in obtaining unsubsidized employment upon terminating from the program. For PY 1997, the Secretary of Labor established an "entered employment rate" of 72 percent as a performance standard for the DW program. For PY 1997, ETA reported the DW program achieved an "entered employment rate" 79 percent, well above the 72 percent established as a standard. However, our work indicates program successes were overstated.

We could not directly estimate the effect of data errors on the "entered employment rate" because the mandatory performance measure consisted of only data from substate program activities. Our sample included participants from all Title III programs and considered reported data for participants in substate, Governors' and National Reserve grants. However, ETA also reported a composite Title III "entered employment rate" measure of 68 percent for the PY 1997 program which represented substate formula grants, Governors' Reserve and National Reserve funding sources.

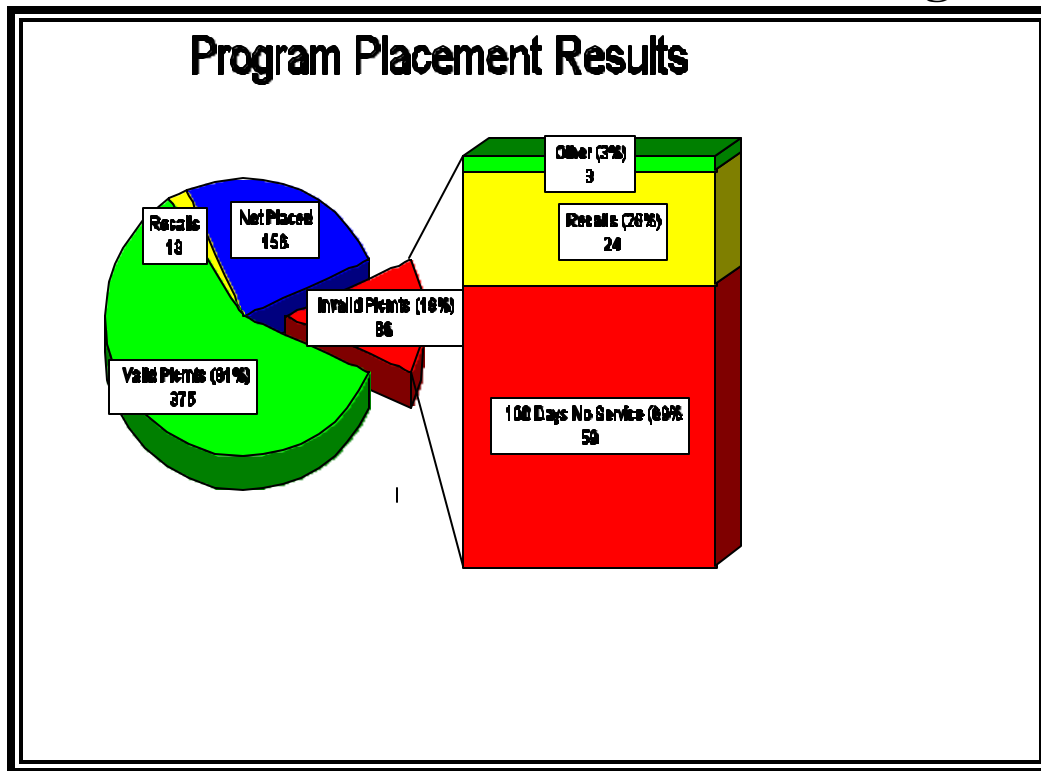
While the single mandatory Title III performance standard considers only substate formula program results, the composite measure was computed using SPIR participant data from all grants and is



comparable to the population from which we drew our sample.<sup>11</sup> After correcting for errors present in the data we sampled, we statistically estimated the composite “entered employment rate” was 53 percent, or a difference of 15 percentage points from the 68 percent rate reported by ETA.<sup>12</sup> As the preponderance of SPIR consists of substate program data, we suspect the 79 percent entered employment rate for substate activities which was reported by ETA against the single mandatory performance measure is also overstated.

We also have concerns with procedures used to collect data on the program’s success. Following individuals’ active participation in the program, staff may maintain contact with participants to determine their status. Program guidance published by ETA in Training and Employment Information Notice (TEIN) No. 5-93, January 24, 1997, required that each participant be terminated from the DW

Figure 5



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<sup>11</sup>According to ETA’s instructions, this rate is calculated by taking the total number of individuals who entered employment (for 20 or more hours per week) at termination, excluding those who were recalled or retained by the original employer after receipt of a layoff notice, divided by total terminations excluding those who were recalled or retained by the employer after the participant had received a layoff notice.

<sup>12</sup>The difference of 15 percentage points between the rate we projected and that reported by ETA is statistically significant at 90 percent confidence limits. See Exhibit A.

program no more than 90 days after the last “substantial” services were provided the participant.<sup>13</sup> Compliance with the guidance reduces the opportunity for service providers to hold participants in status until it is determined that they have obtained jobs, and then claim them as program-related placements.

However, the guidance was often ignored. As Figure 5 illustrates, 19 percent of the placements claimed in our sample (86 of 461) were invalid. Invalid placements included 59 individuals who had not been terminated from the program although 100 days<sup>14</sup> or more had passed since they last received substantial services. In fact, 22 of the 59 individuals had not been reported as terminated 200 days after the date of last substantial services. One individual remained in status for almost 2 years after he had completed training.

An additional 24 individuals who were claimed as having entered employment had returned to (been recalled) or remained with their previous employers. SPIR instructions require programs to count as a “recall” a participant whose training was not a primary reason for recall action. We determined that training received through Title III programs was not the primary reason for the recall of 24 participants who returned to their previous employer. Consequently, such participants should have been removed from calculations of ETA’s mandatory performance standard.<sup>15</sup> Three additional placements were considered invalid for other reasons.

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### **SPIR Data Contained Significant Inaccuracies**

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We estimate program operators made errors in one or more data elements in 81 percent of the records included in PY 1997 SPIR, which led to misreporting of program services and outcomes.

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<sup>13</sup>According to ETA’s TEIN No. 5-93, “substantial services” are those authorized in JTPA Sections 314 (c) and (d), which include Basic Readjustment Services (BRS) and retraining, respectively.

<sup>14</sup>As mentioned, ETA’s standard is 90 days. We added an additional 10-day “grace period” and considered placements claimed within 100 days of last substantial service to have complied with the policy.

<sup>15</sup>We have excluded participants who were “recalls” from our calculation of the “entered employment rate.” We also excluded from the numerator participants who were placed and had worked in occupations less than 20 hours per week. According to information ETA provided us, this is consistent with their instructions for calculating the “entered employment rate.” Also, participants funded under National or Governor’s Reserve grants are excluded in determining this rate. However, we included these persons in our sample for comparison purposes.

We believe our estimate of the overall error rate is conservative.<sup>16</sup> Errors were caused by lack of diligence in recording the information, problems with software used to accumulate the statistics, intentional use of plug numbers, and misinterpretations of SPIR instructions. SPIR errors that occurred most frequently involved:

- job of dislocation wages;
- training dates;
- training hours provided;
- unsubsidized employment; and
- participant followup.

**“Job of Dislocation Wages” Were Inaccurately Reported for 11 Percent of Participants.** We estimate 11 percent of the participants (excluding displaced homemakers) either had no wages reported for their jobs of dislocation or the wages entered into SPIR were incorrect. Therefore, the SPIR’s value in determining if the program resulted in wage gains or losses for the participants who were served is questionable.

In some instances, service providers used the minimum wage as a “plug” figure in the SPIR when the wages for the participants’ jobs of dislocation had not been determined. In other instances, the wages for individuals’ jobs of dislocation were inaccurate because interviewers mistakenly cited wages participants earned in intervening temporary “stopgap” jobs as wages in their jobs of dislocation. Program regulations at CFR 631.3(i)(2) provide an eligible dislocated worker remains eligible if the individual, “. . . (2) *accepts temporary employment for the purpose of income maintenance. . . .*”

**Errors Involving Training Dates Affected 50 Percent of Participants’ Records in the SPIR.** SPIR data often contained errors regarding participants’ dates of entry into and exit from training. Errors included instances in which training dates were entered for nontraining activities or the training dates entered were inaccurate. These inaccuracies could mislead SPIR users in a number of areas regarding retraining -- a crucial component of the program.

We estimated 30 percent of the cases involved the entry of training dates in the SPIR, even though no training had occurred. Often the SPIR reflected that participants received training, when in fact they

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<sup>16</sup>We did not include all occurrences that could have been considered exceptions. For example, placements reported for some participants discussed in Chapter I who we believe were ineligible for Title III assistance were not counted as SPIR errors.

had received only Basic Readjustment Services (BRS).<sup>17</sup> Haphazard use of the training date fields to enter dates of other participant services also contributed to errors. A participant's enrollment into the DW program or migration to another program component was often mistakenly reported as entry into training.

When training was recorded, entry and exit training dates were often incorrect. Dates recorded in "training" fields for other nontraining activities inflated the actual number of individuals who received training. In addition, 20 percent of the files supported that actual training had occurred but either the training entry dates, exit dates or both contained errors. The problems we noted resulted in incorrect measurement of time that had elapsed between:

- the beginning and end of training, leading to wrong determinations on the length of training;
- the application dates or eligibility determination dates and the onset of training activity; and
- the end of training and program termination.

Inaccuracies also could lead to several problems when using the data to evaluate the program. For example, misleading relationships could result from comparisons of the length of training and program outcomes.

**Errors Occurred in Hours of Training Reported for an Estimated 18 Percent of SPIR Records.** We estimate that 18 percent of the SPIR's data contained inaccuracies in hours of training participants were reported to have received. As with errors in training dates we previously discussed, mistakes in the training hours that were reported could lead to errors in evaluating the effectiveness of training activities.

We concluded that some of the main causes of training hour errors in the SPIR were:

- MIS computer software errors;
- failure to report all the training components in which the participants were engaged;
- use of budgeted hours rather than actual; and
- inconsistencies in the way training hours were measured, such as using the number of class credit hours instead of the actual hours spent in training as the SPIR required.

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<sup>17</sup>BRS included a variety of nontraining activities and often involves job search assistance.

The importance of accurate program information is underscored by uses made of the data. In addition to its obvious importance as a management tool, program information is used by the Department to provide testimony at DOL appropriation and oversight hearings and apply sanctions in the event of nonperformance. Under WIA, program information will also be used to award incentive grants at the state and local levels and to apply sanctions against states, local areas and training providers that fail to meet performance standards.

**Errors in Reporting Unsubsidized Employment Occurred for 11 Percent of Individuals.** As previously discussed, errors of this type affected the DW program's performance measures. ETA requires that individuals be terminated from the program within 90 days from date of last "substantial and frequent" services. We counted as errors instances in which service providers reported participants in our sample had entered unsubsidized employment upon termination, yet the participants had not received any substantial service from the DW program within 100 days of their termination.

We also counted as errors instances in which service providers claimed participants had entered unsubsidized employment; however, they had actually been called back to or had remained with their previous employers. SPIR instructions require that "recalled" employees not be counted as placement successes.

**Inaccuracies Related to Participant Followup Occurred in an Estimated 3 Percent of SPIR Records.** Errors arose in reporting data from post-termination followup.<sup>18</sup>

Problems occurred both with instances in which followup was reported to have occurred in the SPIR but was not completed, and when required followup was completed but the SPIR reflected that the participants were not contacted.

Inaccuracies in followup affected the accuracy of other SPIR information, including:

- employment at followup;
- the hourly wages of those found to be employed;
- the weekly hours of those who were working at followup; and
- whether the individuals employed were working with the same employer as at termination.

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<sup>18</sup>Followup occurs 13 weeks after termination from the program. The service providers or contractors contact the participants by telephone to obtain employment information, including hours worked and hourly wages for those participants employed.

We also identified several instances in which followup occurred for persons not in the followup sample and the results were not entered into the SPIR.

ETA prescribes the minimum participant sample sizes grantees are required to contact for followup. The sample sizes depend upon the number of participants who terminated from the program and may include all or only a portion of the terminated participants. The missing data was the result of SSAs that elected to sample 100 percent of the participants who had terminated from the program but entered information in the SPIR on only the number of participants they were required to sample. ETA indicates entities are to enter the results of all followup activities completed. By entering the results of all followup into the SPIR, valuable data are captured and the risk that only the most favorable outcomes will be reported is eliminated.

**Some Grantees Do Not See Followup Data.** The arrangements used to complete followup and the amount of review grantees complete on the data before they are submitted to ETA differed widely among locations. In some states, the reports were submitted directly by the followup contractor to another contractor ETA has hired to manage collection and analysis of national SPIR data. Hence, participant followup data were not even seen by program staff before they were submitted to ETA's contractor. Although such procedures may appear efficient, they prevented program counselors and case workers from receiving feedback on program activities. In these extreme circumstances, followup was an exercise in gathering statistical data and had no value as a local management tool.

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**Accurate Program  
Data  
Are Critical to WIA  
Operations**

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Concerns we identified with SPIR data are persistent problems that have been discussed in OIG audits dating from 1996<sup>19</sup>. Improvements must occur since the accuracy and completeness of program data are even more critical to

WIA  
than to JTPA  
programs.

A variety of WIA's provisions are driven by the results obtained from performance measures. Instead of a single performance measure for the DW program, as required by JTPA, four core performance and two customer satisfaction indicators will apply to WIA. The management information and reporting system that will be used to collect these data is the "Workforce Investment Act Standardized Record Data" (WIASRD). The manner in which data will be collected is similar to conditions found in our review of the SPIR. Use of unemployment wage records rather than followup surveys may improve the consistency of data and accuracy of reports.

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<sup>19</sup>OIG report number 12-96-005-03-340, issued March 28, 1996, cited significant inadequacies with management controls over SPIR data, at all levels, for JTPA Titles IIA, IIC and III.

## **The Dislocated Worker Program in a Growing Economy**

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In addition, performance-related funding incentives and sanctions are to be applied at both state and local levels and are dependent upon each entity's success when measured against negotiated performance levels. Even eligible training providers must submit annual performance-based data on the outcomes of participants they have served. Their continuation as eligible training providers is dependent upon their participants' success in meeting minimum performance levels.

## **CONCLUSIONS**

WIA will soon replace JTPA as a framework for delivering the Department's employment and training programs. WIA's eligible adult and DW participant populations have more in common than under JTPA. Relaxed eligibility requirements for the Adult program, the one-stop delivery structure and shared service delivery and training systems would seem to blur the distinction between services for dislocated workers and other eligible adults.

However, Congress has also made changes to the DW program that sharpen its focus on the target populations to be served. The long-term unemployed are no longer defined as dislocated workers and displaced homemakers have been elevated from "optional" status to an eligible group. Congress has signaled its intention to continue dedicated assistance to dislocated workers. Provisions of the Worker Adjustment and Retraining Notification Act, which require that certain employers give workers and appropriate public officials advance notice of plant closings and mass layoffs, remain in force. Also, funding continues for rapid response activities, which provide early intervention to victims of layoffs. Separate funding streams are maintained for the DW and Adult programs, even though many other employment and training activities were consolidated by WIA.

Our concerns with eligibility are not intended to suggest that many persons served by the DW program, regardless of whether they satisfied program eligibility requirements, did not benefit from the DW program. Although not within the scope of our audit, we observed many examples in which participants were provided quality training that resulted in their obtaining employment in the fields in which they received instruction. For example, an individual who lost his job as an assistant manager was retrained and placed as a high school teacher. His earnings increased from \$14.30 per hour to \$19.00 per hour. In another case, a person laid off as a nurse's aide had her skills upgraded and found employment as a licensed practical nurse after completing training.

Rather, our concern is with adequately defining the target population to be served. Guidance is needed to ensure the DW program concentrates on persons who are out of work because of reduced demand for specific jobs or the obsolescence of specific skills, rather than the general unemployed. The guidance should be coupled with an allocation process that distributes program funds where they are most needed.

Improved validity of program data must also be addressed. WIA's performance-driven requirements demand accurate and complete program data. Reliable data are also necessary to measure the programs' outcomes and to assist program officials and Congress in setting the direction and emphasis of employment and training programs.



## **The Dislocated Worker Program in a Growing Economy**

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In a meeting on May 31, 2000, the Assistant Secretary for Employment and Training stated his view that state and local Title III recipients had exercised flexibility as intended by Congress in delivering workforce services to meet local needs. He believed this flexibility extended to state and local discretion in establishing criteria for determining eligibility for JTPA Title III dislocated worker programs. ETA acknowledged that as this flexibility increases under WIA, so will the value of increased monitoring and technical assistance. Accordingly, ETA plans to increase its dislocated worker program technical assistance and monitoring activities.

## **RECOMMENDATIONS**

We recommend the Assistant Secretary for Employment and Training provide guidance to the states to ensure those served by the DW program are eligible and that documentation is maintained to support conclusions reached. The guidance should address procedures to ensure those served as DW are unlikely to return to similar occupations or industries. In addition, guidance should be developed that helps define what constitutes a participant's attachment to the workforce.

The Assistant Secretary should examine possible improvements in allocating DW program funds to states and determine if other methodologies would better distribute DW funds to areas in which they are most needed. Alternative DW program allocation strategies could be examined in conjunction with a study of the Adult program's allocation formula, which is required under WIA. Viable alternatives may include determining projected needs using labor market information or increasing the proportion of funds distributed through applications which demonstrate need. The Assistant Secretary should encourage the Secretary to solicit congressional support for changes that may be needed in the allocation process. Because Governors have considerable flexibility in determining how they will distribute DW funds among local areas and state activities, the Assistant Secretary also should provide assistance to states on alternative ways to distribute DW funds to substate areas.

We also recommend the Assistant Secretary require ETA staff to complete periodic, comprehensive quality review and oversight of data entered into participant information systems to ensure placements are valid and that data are entered in accordance with program guidance and are otherwise accurate and complete. The reviews should be completed at the data point-of-entry, as well as at entities responsible for consolidating the information.

## ETA'S COMMENTS ON THE DRAFT AUDIT REPORT

ETA generally agreed with our recommendations but voiced several concerns regarding the audit's premises, methodology and the conclusions. The complete text of ETA's response is included as an appendix to this report.

ETA indicated the general premise of the audit is that dislocated worker funding exceeds the needs of eligible dislocated workers and is the result of our misconceptions of the purposes and operations of the program. ETA believes the report improperly focuses on the victims of plant closures and mass layoffs as the legitimate target group Congress intended to serve and fails to recognize EDWAA's broader objective of assisting all workers affected by structural changes in the workplace. ETA believes the report has not adequately considered the importance of local flexibility in designing programs and determining those who will be served.

ETA commented that our criticism of serving workers who did not have a bona fide job of dislocation was improper because the concept is not defined in the Act or regulations. ETA also disagreed with our use of locally identified high-demand occupations to judge participants' prospects of returning to similar jobs or occupations. ETA argued that high-demand listings may have encompassed too broad a geographic area and may not have been current enough or sensitive to individual participants' circumstances.

ETA does not believe there is a basis for our questioning whether assistance should have been provided participants served as dislocated workers who had been fired for cause, voluntarily quit, retired or were temporary workers. Again, ETA indicated neither the Act nor regulations prohibit serving such persons. ETA specifically defended serving temporary workers through a National Reserve Account project. The response provides:

*There is no statutory or regulatory requirement, or ETA official policy that requires workers who are being dislocated to have been attached to their jobs for any specific periods of time in order to qualify for adjustment assistance. . . .*

ETA does not believe the availability of excess funds, in some areas, has contributed to broad local interpretation of program eligibility requirements. In addition, ETA indicated Figure 3, which illustrates the numbers of long-term unemployed served at the sites we visited, does not take into account persons served by other of the Department's programs. However, ETA did acknowledge that funding allocation procedures ". . . may not always be an accurate reflection of the dislocated worker population," and that improvements in the allocation formula may be possible. The comments indicate a WIA mandate to study improvements in the adult program's funding distribution formula may provide an opportunity to explore improvements in the DW program's allocation formula as well.

## The Dislocated Worker Program in a Growing Economy

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Regarding the accuracy of program data, ETA indicated, “*we acknowledge that assuring compliance with high standards of data quality continues to be a significant challenge.*”

However, ETA believes the report does not clearly distinguish between inaccuracies in data and program effectiveness and suggests our discussion of the inaccuracy of data implies concerns regarding the program’s effectiveness.

ETA also commented that because our sample included all Title III funds, material differences in our projections of the “entered employment rate” from that reported by ETA are not sufficient to determine that performance has been over-reported. According to ETA:

*Without further context, the report concludes that performance (and by implication effectiveness) has been over-reported, when in fact the audit’s data are sufficient only to raise a question – and not adequate to support a conclusion – regarding program performance.*

The response also cited recent ETA initiatives to improve the accuracy of SPIR data and concluded that use of UI data for WIA performance reporting should reduce problems.

## ANALYSIS OF ETA'S COMMENTS

We understand that EDWAA intends to serve persons displaced by structural changes in the workplace and that victims of plant closing and mass layoffs represent only a portion of the eligible target population. Our concerns are not with the failure of service providers to observe technicalities of the eligibility determination process. Rather, many participants admitted to the program were served without evidence they were unemployed because their skills were no longer in demand or were obsolete. Often, those on whom little evidence was available were the long-term unemployed.

In its comments, ETA repeatedly indicated no program criteria were available and expressed its belief that it was improper for us to have questioned individuals' participation in the program. ETA also took issue with criteria we used to make our judgments of whether individuals should have been served by the program.

Guidance is needed to determine whether persons are dislocated workers. Criteria need not be restrictive; however, absent guidance, almost any unemployed person could be served as a dislocated worker. Adequate criteria did not exist to define what constitutes attachment to the workforce, job tenure or how individuals' prospects of returning to a similar occupation should be assessed. Consequently, requirements may not be sufficient to exclude those who are not dislocated workers, such as the 16-year old youth previously discussed in the report who mowed lawns 1 hour per week.

ETA disagreed with our use of locally identified high-demand occupations to assess participants' prospects of returning to similar occupations or industries. ETA believes the listings of high-demand jobs may be dated, encompass too wide a geographic area or may be too broadly defined. ETA also indicated our examination had not adequately considered individuals' barriers to reemployment. According to ETA, ". . . local programs typically assess individuals reemployability using personal information in addition to skills inventories."

The high-demand listings are required by the JTPA program planning process and are intended to ensure participants are trained in occupations that lead to reemployment. Consequently, they should be an acceptable tool for determining individuals' job prospects. We also considered each individual's circumstance in assessing his or her prospects of reemployment, such as a participant's age, health and documented attempts to find employment. As previously mentioned in the report, we used the listings only where there was no evidence SSAs' had applied reasonable methods in determining applicants' reemployment prospects. We also reviewed participants' files for evidence that other barriers existed that may have qualified them for the program.

Regarding our evaluation of participants' job of dislocation, ETA objected to our use of the concept of "job of dislocation" because it is not established by statute or regulation. We agree that it is

## The Dislocated Worker Program in a Growing Economy

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inadequately defined; however, we note that it is used by ETA in measuring program participants' wage gains or losses after employment in new jobs. SPIR requires entry of hourly wages from the "job of dislocation," and ETA compares it to hourly wages for participants who found jobs when they terminated from the program.

ETA also defended serving temporary workers and indicated there is no requirement regarding the length of time individuals must be attached to their jobs in order to qualify for assistance as a dislocated workers. ETA provided several scenarios, including participants employed by temporary employment agencies, they believed justified serving temporary workers. The scenarios discussed by ETA in their comments were not issues in our audit. ETA also defended serving temporary workers in the National Reserve Account project and noted that some workers are employed in temporary status for years. Regarding the National Reserve Account project, we found some participants had left full-time employment for the high-paying jobs with the knowledge their jobs were temporary.

ETA was in general agreement that the formula used to distribute dislocated worker funds may be improved and suggests that options may be studied in concert with a required evaluation of the formula allotment process under WIA's adult program.

Regarding the validity of program data, ETA commented that we have, by implication, suggested program performance is over-reported and that our sample estimate is only sufficient to "*. . . raise a question as to what the actual level of performance is given the data quality problems.*"

We agree that evaluating the program's effectiveness was not an objective of our audit, and we have not made assertions regarding the program's effectiveness. We also agree that we were unable to statistically project a figure from our sample comparable to the "entered employment rate" for SSAs, which was the mandatory performance measure for the Title III program. However, we disagree with ETA's assertion that the sample suggests only that there is a problem with actual performance levels and not that program results have been over-reported.

As previously discussed, our sample was selected from a composite of all PY 1997 Title III activity (SSA, Governors' Reserve and National Reserve Account funds). Our composite sample estimate of the "entered employment rate" (53 percent) was projected after adjusting for errors identified in the data we reviewed. A composite Title III "entered employment rate" of 68 percent, for all Title III programs, is also available from the SPIR. Our projection of the composite "entered employment rate" is comparable to the composite "entered employment rate" determined using SPIR data, and we are confident the composite Title III "entered employment rate" reported in the SPIR was over-reported.

Congress continues to provide a separate funding stream for the dislocated worker program. Accordingly, persons served should be those Congress intended to benefit from the program. ETA's response indicates agreement that there is a need to ensure participants' files contain adequate

## The Dislocated Worker Program in a Growing Economy

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information to support eligibility, and ETA indicates it will work with state and local partners to develop guidance in documenting eligibility. However, preliminary to documenting eligibility, there is a need for guidance that better identifies eligible dislocated workers. The guidance need not be restrictive but should provide some parameters that define the target populations who should be served.

Improved guidance should be coupled with an allocation process that better distributes DW program funds to where they are needed. We are encouraged by ETA's willingness to consider examining alternatives to the DW program's existing allocation formula when WIA's adult funding formula is examined. Finally, the DW program cannot effectively operate without accurate program information, as ETA acknowledges in its comments. The use of UI data may reduce some types of errors we encountered. However, WIA dependence on precise performance information demands better oversight to ensure creditable information is entered into reporting systems.

## OBJECTIVES, SCOPE AND METHODOLOGY

### Object i

The principal objective of the audit was to determine if current policies and practices of the DW program result in the targeted population, as defined by JTPA, being served.

Other audit objectives were to determine if:

- program data were accurately and completely reported to ETA and recorded in the SPIR;
- program funds were sufficient to meet program needs; and
- further refinements could be recommended for operation of the DW program under WIA.

Our objectives did not include determining the overall effectiveness of the program.

### Scope and Methodology

We reviewed the files of 630 participants randomly selected from the FY 1997 SPIR, the latest period available at the time of our audit. The following process was used to select the sample. The 10 ETA regions were grouped into 4 strata according to their geographical proximity.

	<u>Strata</u>	<u>ETA Regions</u>
1	I, II, III	
2	IV, VI, VIII	
3	V, VII	
4	IX, X	

The SSAs within these strata were further stratified into three substrata, each according to the number of terminees at each site. We then randomly selected 35 SSAs (see Exhibit D) to be included in the audit. Terminees from Governor Reserve and National Reserve programs for each state were treated as individual SSAs. A random sample of 18 dislocated worker files was selected from each of the 35 SSAs selected for audits. The sample was selected to yield a confidence level of 95 percent with plus or minus 5 percent precision.

The population parameters with their standard errors were estimated using Taylor linearization methodology. The Survey data analysis (SUDAAN) software was used for this purpose using a stratified design with replacement. The statistical weights were determined and used to compensate for



unequal probability of selection of the terminees within the sample selected SSA's. Exhibit A provides the results of our sampling projections.

Our review of the DW program's internal accounting and administrative controls was limited to those associated with the recording of intake activities, services provided, and followup activities provided to individuals by the SSAs in our sample. Our examination was conducted in accordance with Government Auditing Standards, applicable to performance audits, issued by the Comptroller General of the United States. Fieldwork began July 6, 1999, and continued until February 17, 2000.

We reviewed the plans and grants that were the basis for the award of dislocated worker funds for each audit site. We reviewed the information used to determine participant eligibility, the services rendered each participant, and the outcome of each participant as determined through followup by the SSA or through wage records from the UI office. We compared information contained in the participant files to that extracted from the SPIR. Finally, we provided a "Statement of Facts" to management officials at each site we visited. We solicited their comments on information we had obtained in reviewing program files and considered their responses in drafting this report.

**EXHIBIT A****RESULTS OF STATISTICAL SAMPLES**

<b>Attributes Projected Number of Participants:</b>	<b>Universe Size</b>	<b>Point Estimate</b>	<b>Sampling Error</b>	<b>Confidence Limits 90%</b>	<b>Estimated No. in the Universe</b>
Laid Off, Drawing or Exhausted UC	266,019	37%	8%	24% to 50%	63,845 to 133,009
Plant Closures & Mass Layoffs	266,019	29%	5%	21% to 37%	55,864 to 98,427
Long-Term Unemployed	266,019	33%	10%	17% to 49%	45,223 to 130,349
Self-Employed or Displaced Homemaker	266,019	1%	1%	0% to 2%	0 to 5,320
Participation Questioned, Overall	266,019	35%	10%	18% to 51%	49,214 to 137,000
Questioned High-Demand Occupation	266,019	21%	6%	11% to 31%	29,528 to 82,200
Questioned No Job of Dislocation	266,019	12%	5%	4% to 20%	9,843 to 54,002
Questioned Other Reasons	266,019	18%	10%	2% to 34%	3,990 to 91,777
Participants Placed in Jobs	253,086*	53%	6%	43% to 63%	109,080 to 159,191
SPIR Errors, Overall	266,019	81%	5%	73% to 89%	193,396 to 237,555
SPIR Errors - Wages for "Job of Dislocation"	264,910*	11%	5%	3% to 19%	7,153 to 51,128
SPIR Errors - Training Dates Reported in Error	266,019	50%	9%	35% to 65%	93,107 to 172,912
SPIR Errors - Training Hours in Error	266,019	18%	5%	10% to 26%	26,602 to 69,165
Errors in Unsubsidized Employment Reported	266,019	11%	3%	6% to 16%	15,961 to 42,563
Errors in Followup	266,019	3%	2%	0% to 6%	0 to 15,961

\* The universe of those placed in jobs was adjusted for employees recalled by their previous employers. The universe for the job of dislocation was reduced by the number of "displaced homemakers" served.

## EXHIBIT B

### COMPARISON OF PROGRAM FUNDING AND PROGRAM NEED

Year	Title III* Funding	Persons* Who Lost Jobs	Persons* Unemployed	Civilian*L abor Force	Unempl. Rates	Persons* In Mass Layoffs	Incidents of Mass Layoffs
1992	\$576,986	5,389	9,613	128,105	7.5%	See Note	See Note
1993	\$566,646	4,848	8,940	129,200	6.9%	See Note	See Note
1994	\$1,118,000	3,815	7,996	131,056	6.1%	See Note	See Note
1995	\$1,228,556	3,476	7,404	132,304	5.6%	1,636	15,495
1996	\$1,091,900	3,370	7,236	133,943	5.4%	1,438	14,111
1997	\$1,286,200	3,037	6,739	136,297	4.9%	1,543	14,960
1998	\$1,350,510	2,822	6,210	137,673	4.5%	1,775	15,776
1999	\$1,405,510	2,622	5,880	139,368	4.2%	1,600	14,909
2000	\$1,600,000						

\* In thousands

Note: BLS did not capture comparable statistics for periods prior to 1994.

**PY 1997 TITLE III APPROPRIATIONS      EXHIBIT C**  
**AVERAGE FORMULA- FUNDED ALLOCATION PER TERMINEE**

STATE	PY 1997 ALLOC.	TERMINEES			AVERAGE
		SUBSTATE	GOVERNOR RESERVE	TOTAL	
Alabama	\$14,887,940	2,284	1,008	3,292	\$4,522
Alaska	\$3,931,646	439	78	517	\$7,605
Arizona	\$10,790,780	2,213	1,302	3,515	\$3,070
Arkansas	\$5,898,001	695	3,500	4,195	\$1,406
California	\$226,611,355	19,487	12,847	32,334	\$7,008
Colorado	\$6,569,865	1,891	1,808	3,699	\$1,776
Connecticut	\$12,269,326	1,679	2,715	4,394	\$2,792
Delaware	\$1,966,568	392	0	392	\$5,017
D.C.	\$5,631,401	277	0	277	\$20,330
Florida	\$47,487,185	6,289	408	6,697	\$7,091
Georgia	\$15,447,527	2,258	10,579	12,837	\$1,203
Hawaii	\$5,392,433	1,066	0	1,066	\$5,059
Idaho	\$3,203,461	999	0	999	\$3,207
Illinois	\$41,727,268	7,954	1,835	9,789	\$4,263
Indiana	\$11,375,233	3,288	3,190	6,478	\$1,756
Iowa	\$4,209,472	809	0	809	\$5,203
Kansas	\$4,690,124	943	712	1,655	\$2,834
Kentucky	\$11,913,534	2,368	573	2,941	\$4,051
Louisiana	\$22,984,811	2,771	1,719	4,490	\$5,119
Maine	\$4,643,804	851	353	1,204	\$3,857
Maryland	\$16,322,396	6,797	394	7,191	\$2,270
Massachusetts	\$18,455,865	4,855	1,496	6,351	\$2,906
Michigan	\$24,798,043	4,624	26	4,650	\$5,333
Minnesota	\$8,025,182	1,434	738	2,172	\$3,695
Mississippi	\$10,812,972	2,506	2,952	5,458	\$1,981
Missouri	\$10,875,026	2,754	1,552	4,306	\$2,526
Montana	\$3,531,457	438	341	779	\$4,533
Nebraska	\$1,594,122	465	0	465	\$3,428
Nevada	\$4,632,379	878	571	1,449	\$3,197
New Hampshire	\$2,260,095	578	0	578	\$3,910
New Jersey	\$44,679,005	5,527	6,632	12,159	\$3,675
New Mexico	\$8,607,771	1,180	0	1,180	\$7,295
New York	\$91,917,963	15,595	3,094	18,689	\$4,918
North Carolina	\$13,056,615	2,297	872	3,169	\$4,120
North Dakota	\$911,735	282	0	282	\$3,233
Ohio	\$30,158,145	4,635	1,329	5,964	\$5,057
Oklahoma	\$6,134,591	1,260	618	1,878	\$3,267
Oregon	\$8,292,745	1,728	0	1,728	\$4,799
Pennsylvania	\$47,736,539	7,151	4,118	11,269	\$4,236
Puerto Rico	\$39,306,758	2,854	2,948	5,802	\$6,775
Rhode Island	\$4,450,933	477	900	1,377	\$3,232
South Carolina	\$13,502,936	1,996	5,061	7,057	\$1,913
South Dakota	\$815,418	413	17	430	\$1,896
Tennessee	\$15,412,716	1,878	1,359	3,237	\$4,761
Texas	\$81,382,699	12,263	284	12,547	\$6,486
Utah	\$2,503,785	459	0	459	\$5,455
Vermont	\$1,060,691	269	2	271	\$3,914
Virginia	\$13,354,807	2,432	1,371	3,803	\$3,512
Washington	\$26,317,878	4,355	1,194	5,549	\$4,743
West Virginia	\$12,065,944	732	483	1,215	\$9,931
Wisconsin	\$8,791,150	2,289	126	2,415	\$3,640
Wyoming	\$999,905	176	0	176	\$5,681
Totals	\$1,034,400,000	154,530	81,105	235,808	\$4,390

\*Trust Territories allocated \$2,749,381 however the number of participants were not available

**TITLE III AUDIT SITES  
NUMBER OF PARTICIPANTS TERMINATED DURING PY 1997**

<u>NAME</u>	<u>LOCATION</u>	<u>NUMBER OF TERMINEES</u>
NATIONAL RESERVE	AL	650
OAKLAND CITY	CA	176
SANTA CRUZ CITY	CA	212
NATIONAL RESERVE	CA	6,294
RURAL COLORADO	CO	307
JACKSONVILLE	FL	90
SHALIMAR	FL	275
KAUAI CTY	HI	84
WESTERN INDIANA SDA	IN	231
NATIONAL RESERVE	IA	1,251
THE CUMBERLANDS SDA	KY	205
UNION PARISH	LA	80
SUSQUEHANNA REGION	MD	224
WASHTENAW	MI	80
NORTHEASTERN MN	MN	143
MISSISSIPPI SDA	MS	1,694
ST. LOUIS CITY	MO	512
ST. LOUIS COUNTY	MO	361
GREATER NEBRASKA	NE	238
GOVERNOR'S RESERVE	NV	571
NEW HAMPSHIRE SDA	NH	578
BALANCE OF ESSEX	NJ	334
YONKERS CITY	NY	70
BALANCE OF NASSAU	NY	337
REGION L	NC	298
CANTON (CARROLL)	OH	313
NATIONAL RESERVE	OK	195
TOWANDA	PA	227
COLUMBIA	SC	67
W CENTRAL TEXAS	TX	65
THE OLYMPIC	WA	221
WINN/FOND LAKE	WI	45
WYOMING	WY	176
CAGUAS/GUAYAMA	PR	446
GOVERNOR'S RESERVE	PR	2,948

**TEXT OF ETA'S COMMENTS  
ON THE DRAFT AUDIT REPORT**