

MEMORANDUM FOR: RAYMOND BRAMUCCI
Assistant Secretary for
Employment and Training

FROM: JOHN J. GETEK
Assistant Inspector General
for Audit

SUBJECT: Consultation Report No. 20-00-001-03-390
Followup Survey of Impact of Workforce Investment
Act Administrative Cost Limitation

Attached are two copies of the report prepared at ETA's request by the CPA firm of Carmichael, Brasher, Tuvell and Savage to follow up on their earlier report on the potential impact of the Workforce Investment Act's (WIA's) administrative cost provisions on entities currently operating under the Job Training Partnership Act (JTPA). We transmitted the CPA firm's earlier (September 2, 1999) report to you on September 24, 1999, as OIG Consultation Report No. 20-99-006-03-390.

The earlier report summarized the results obtained in applying the definition of WIA administration, found at 20 CFR 667.220 of the Interim Final Rule, to Program Year (PY) 1997 costs incurred by 13 selected JTPA recipients. For the followup, which is the subject of the attached report, ETA selected four JTPA service delivery areas (SDAs) that had been included in the earlier review to undergo a survey to reclassify the same costs, this time applying ETA's proposed revised definition of WIA administrative costs. The proposed revised definition has not been officially circulated nor reviewed outside the Department of Labor.

Briefly, notwithstanding the unknown effect of WIA requirements (including designation of local areas, establishment of a one-stop delivery system and other provisions) on program operators' administrative costs, **the followup survey found that the proposed revised definition had a greater effect on the percentage of costs charged to administration than did the Interim Final Rule definition.** Overall, for the four SDAs in the followup survey, the administrative costs reclassified pursuant to the proposed revised definition averaged 8.39 percent of their total allocations. This compares to 16.38 percent on average for the 10 SDAs included in the original survey.

Individually, two of the followup SDAs would be in compliance with the 10 percent administrative cost limitation and one would be 1 percent over the limitation. The remaining SDA did not have significant subrecipient or vendor costs -- and therefore did not benefit from the proposed revised administrative cost definition -- because it essentially operated its JTPA programs in-house. The CPA firm's report noted that the in-house delivery of program services by local boards is not contemplated under WIA Title I-B and is authorized only under narrowly defined circumstances as enumerated in Section 117 (f) of the Act.

In our October 28, 1999, informal comments on ETA's proposed revised definition, we recommended that salaries and related costs of WIA Executive Directors at the state, direct recipient and One-Stop operator levels be classified as administrative costs. We continue to believe that such front office costs are inherently administrative and should be classified as such. Moreover, the results of the followup survey suggest that the proposed revised definition, if adopted in the upcoming Final Rule, will create sufficient breathing room as to accommodate charging the full cost of Executive Direction to the administrative cost category.

Please call me at 219-8404 if you have any questions or wish to arrange a briefing on the followup results.

Attachments

**INDEPENDENT ACCOUNTANTS=
AGREED-UPON PROCEDURES REPORT**

**FOLLOW UP SURVEY OF THE
IMPACT OF THE WORKFORCE INVESTMENT ACT
ADMINISTRATIVE COST LIMITATION
ON JTPA RECIPIENTS**

Table of Contents

	<u>Page</u>
Acronyms	i
Executive Summary	1
Independent Accountants= Report on Applying Agreed-Upon Procedures	3
Agreed-Upon Procedures and Results	
Objective	4
Background.....	4
Scope.....	5
Survey Results.....	5
Procedures Performed and Results	7
Appendix 1 - Results of Survey	9
Appendix 2 - Detail Analysis of Results of Survey	10

ACRONYMS AND GLOSSARY

AUP	Agreed-Upon Procedures
ETA	Employment and Training Administration
JTPA	Job Training Partnership Act
MOU	Memorandum of Understanding
SDA	Service Delivery Area
USDOL	United States Department of Labor
WIA	Workforce Investment Act
Interim Definition	The definition of administrative cost contained in 20 CFR 667.220 of the WIA Interim Final Rule
Revision	The proposed revision to the Interim Definition

EXECUTIVE SUMMARY

The Workforce Investment Act (WIA) will supersede the Job Training Partnership Act (JTPA) and become effective July 1, 2000. Several features of WIA, including establishment of one-stop centers, designation of local areas, and certain program requirements will have an unknown impact on the administrative cost experience of program operators. A significant provision of WIA Title I is the 10 percent limitation on administrative costs applicable to local areas.

An agreed-upon procedures (AUP) report entitled *Impact of Workforce Investment Act Administrative Cost Limitations on JTPA Recipients*, dated September 2, 1999, was prepared by our firm. The September 2 AUP report indicated that applying the 20 CFR 667.220 WIA Interim Final Rule definition (*Interim Definition*) of administrative costs had little effect on the percentage of costs charged to administration; as such, the WIA cost limitations would not have been met in a WIA operating environment. In consideration of our September 2 report and in an effort to provide further relief for the WIA administrative cost definition, the Employment and Training Administration (ETA) internally developed a proposed revised definition (*Revision*) of administrative costs under WIA. This definition has not been officially circulated nor reviewed outside the U.S. Department of Labor (USDOL).

From the 10 service delivery areas (SDAs) included in the initial agreed-upon procedures report dated September 2, 1999, ETA selected four to undergo a followup survey of the revised WIA administrative cost definition. The purpose of the survey was to determine if administrative costs would be lowered using the proposed revised administrative cost definition.

What We Did

We surveyed four SDAs - Job Works, Fort Wayne, Indiana; Lowell Office of Employment and Training, Lowell, Massachusetts; Montana Job Training Partnership, Inc., Helena, Montana; and the City of Charlotte Employment and Training Department, Charlotte, North Carolina - to further reclassify, using the proposed revised WIA administrative cost definition, Program Year (PY) 1997 JTPA Title II-A costs. WIA expresses the administrative cost limitation in terms of the local area's total allocation. This report presents the reclassified JTPA administrative costs, as they would be reported under the proposed revised definition, as a percentage of the SDAs' PY 1997 Title II-A allocation and also as a percentage of Title II-A expenditures for that period.

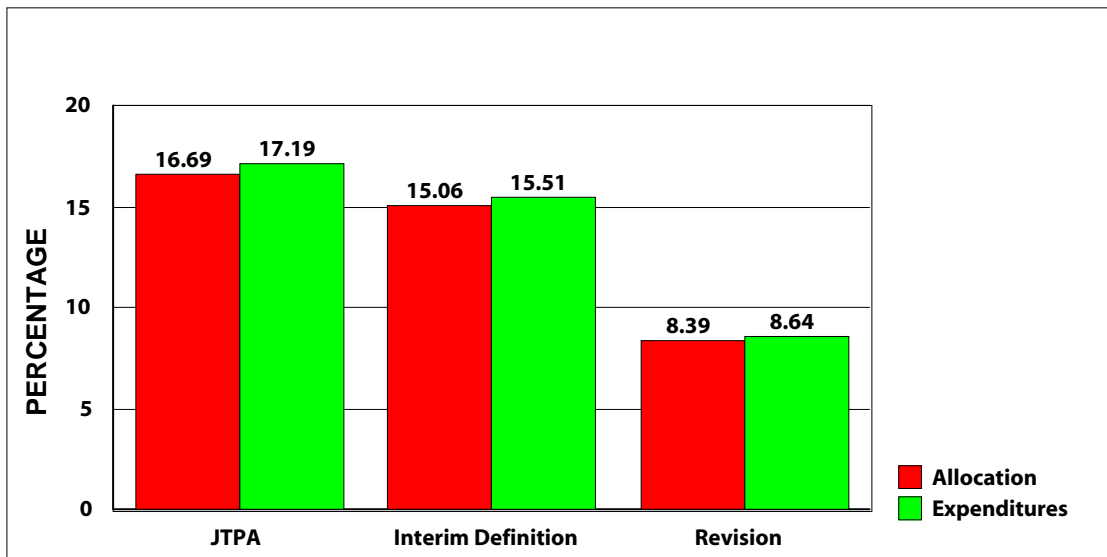
Our procedures were performed in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller of the United States. In accordance with these standards, we rendered an independent accountants' report on applying agreed-upon procedures.

EXECUTIVE SUMMARY

Survey Results

The proposed revised definition had a greater effect on the percentage of costs charged to administration than did the Interim Final Rule definition, depending on how the grantee operated. As a percentage of total program allocation, two of the SDAs would have been in compliance with the administrative cost limitation. One of the SDAs would have been 1 percent over the limitation. The remaining SDA did not have significant subrecipient or vendor costs and therefore did not benefit from the proposed revised administrative cost definition.

The following chart summarizes our results. For the four SDAs surveyed, the reclassified administrative costs averaged 8.39 percent of the SDAs= total allocation and 8.64 percent of the SDAs= total expenditures. See Appendix 1 for additional details.



Officials at three of the four SDAs believed the proposed revised definition would provide enough relief for compliance with the WIA 10 percent statutory cost limitation.

The proposed revised definition would classify as program costs the cost of negotiating Memorandums of Understanding (MOUs) with the One-Stop partners. ETA requested that we obtain the SDAs= estimates of the effort involved in negotiating their MOUs. While three of the SDAs estimated that a significant amount of time would be spent, they were unable to provide a specific estimate of the amount of time or costs associated with this item.

INDEPENDENT ACCOUNTANTS= REPORT
ON APPLYING AGREED-UPON PROCEDURES

Employment and Training Administration,
U.S. Department of Labor:

We have performed the procedures described in the Agreed-Upon Procedures and Results section of this report, which were agreed to by the Employment and Training Administration (ETA) of the U.S. Department of Labor (USDOL) solely to assist in evaluating the potential impact of the Workforce Investment Act-s administrative cost limitation (as revised by ETA) on selected Service Delivery Areas (SDAs), as listed in Appendix 1, (prepared in accordance with the criteria specified therein).

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States.

The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described later in this report either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the potential impact of the Workforce Investment Act-s administrative cost limitation (as revised by ETA) on selected SDAs. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose thereof. This report is intended solely for the information and use of the U.S. Department of Labor and is not intended to be and should not be used by anyone other than these specified parties.

CARMICHAEL, BRASHER, TUVELL & SAVAGE

Atlanta, Georgia
December 15, 1999

AGREED-UPON PROCEDURES AND RESULTS

Objective, Background and Scope

Objective

The objective of the agreed upon procedures performed in this report was to assist ETA in determining if the proposed revised definition of administrative costs would enable a sample of SDAs to comply with the 10 percent statutory limitation on administrative costs.

From the 10 service delivery areas (SDAs) included in the initial agreed-upon procedures report dated September 2, 1999, ETA selected four to undergo a followup survey of the revised WIA administrative cost definition. The purpose of the survey was to determine if administrative costs would be lowered using the proposed revised administrative cost definition.

Background

The Workforce Investment Act (WIA) will supersede the Job Training Partnership Act (JTPA) and become effective July 1, 2000. Several features of WIA, including establishment of one-stop centers, designation of local areas, and certain program requirements will have an unknown impact on the administrative cost experience of program operators. A significant provision of WIA Title I is the 10 percent limitation on administrative costs applicable to local areas.

An agreed-upon procedures (AUP) report entitled Impact of Workforce Investment Act Administrative Cost Limitations on JTPA Recipients,[@] dated September 2, 1999, was prepared by our firm. The September 2 AUP report indicated that applying the 20 CFR 667.220 WIA Interim Final Rule definition (AInterim Definition[@]) of administration to JTPA costs had little effect on the percentage of costs charged to administration; as such, the WIA cost limitations would not have been met in a WIA operating environment. In consideration of our September 2 report and in an effort to provide further relief for the WIA administrative cost definition, the Employment and Training Administration (ETA) internally developed a proposed revised definition (ARevision[@]) of administrative costs under WIA. This definition has not been officially circulated nor reviewed outside the U.S. Department of Labor (USDOL).

ETA internally developed a proposed revision to the interim final rule definition at 20 CFR 667.220. The major changes of the proposed revision would charge as program costs:

- \$ All costs under awards to subrecipients and vendors below the One-Stop operator level for program functions.
- \$ All non-administrative costs of One-Stop operators.

AGREED-UPON PROCEDURES AND RESULTS

- \$ Costs of oversight and monitoring program subrecipients and vendors below the One-Stop operator level.
- \$ Costs involved in negotiating MOUs and developing program plans.

Scope

We surveyed four SDAs - Job Works, Fort Wayne, Indiana; Lowell Office of Employment and Training, Lowell, Massachusetts; Montana Job Training Partnership, Inc., Helena, Montana; and the City of Charlotte Employment and Training Department, Charlotte, North Carolina - to further reclassify, using the proposed revised WIA administrative cost definition, Program Year (PY) 1997 JTPA Title IIA costs. WIA expresses the administrative cost limitation in terms of the local area's total allocation. This report presents the reclassified JTPA administrative costs, as they would be reported under the proposed revised definition, as a percentage of the SDAs' PY 1997 Title II-A allocation and also as a percentage of Title II-A expenditures for that period.

Our procedures were performed in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller of the United States. In accordance with these standards, we rendered an independent accountants' report on applying agreed-upon procedures.

Survey Results

Applying ETA's proposed revised definition of administration to JTPA PY 1997 Title II-A costs had the following results:

- \$ Based on the percentage of administrative cost against their total program allocation, two of the SDAs would have been in compliance with the WIA administrative cost limitation. A third SDA was 1 percent over the limitation. The fourth SDA did not benefit from the revised definition because it did not have any subrecipient or vendor costs. This fourth SDA essentially operated the entire JTPA program, including the provision of training services, in-house. The in-house delivery of program services by local boards is not contemplated under WIA section 117 (f), which (1) provides that local boards may deliver core and intensive services only with the approval of the chief elected official and the Governor and (2) prohibits local boards from providing training services except as waived by the Governor for a period of up to 1 year, renewable for not more than 1 additional year. Such waivers may be revoked by the Governor.

AGREED-UPON PROCEDURES AND RESULTS

- \$ Officials from three of the four SDAs believed the proposed revised definition would provide enough relief for compliance with the 10 percent statutory limitation on administrative costs. The fourth SDA, Ft. Wayne, IN, responded that the proposed revised definition did not provide relief to their SDA for purposes of this survey because they did not contract out any of their Adult IIA training.

- \$ A change in the proposed revised definition would classify as program costs the cost of negotiating Memorandums of Understanding (MOUs) with the One-Stop partners. ETA requested that we obtain the SDAs' estimates of the effort involved in negotiating their MOUs. One of the four SDAs' officials had incurred time during the 1997 program year negotiating MOUs and was able to determine approximately 75 hours were spent on such activities. The other three SDAs could not provide specific hours, but estimated that a significant amount of time would be involved.

AGREED-UPON PROCEDURES AND RESULTS

Procedures Performed and Results

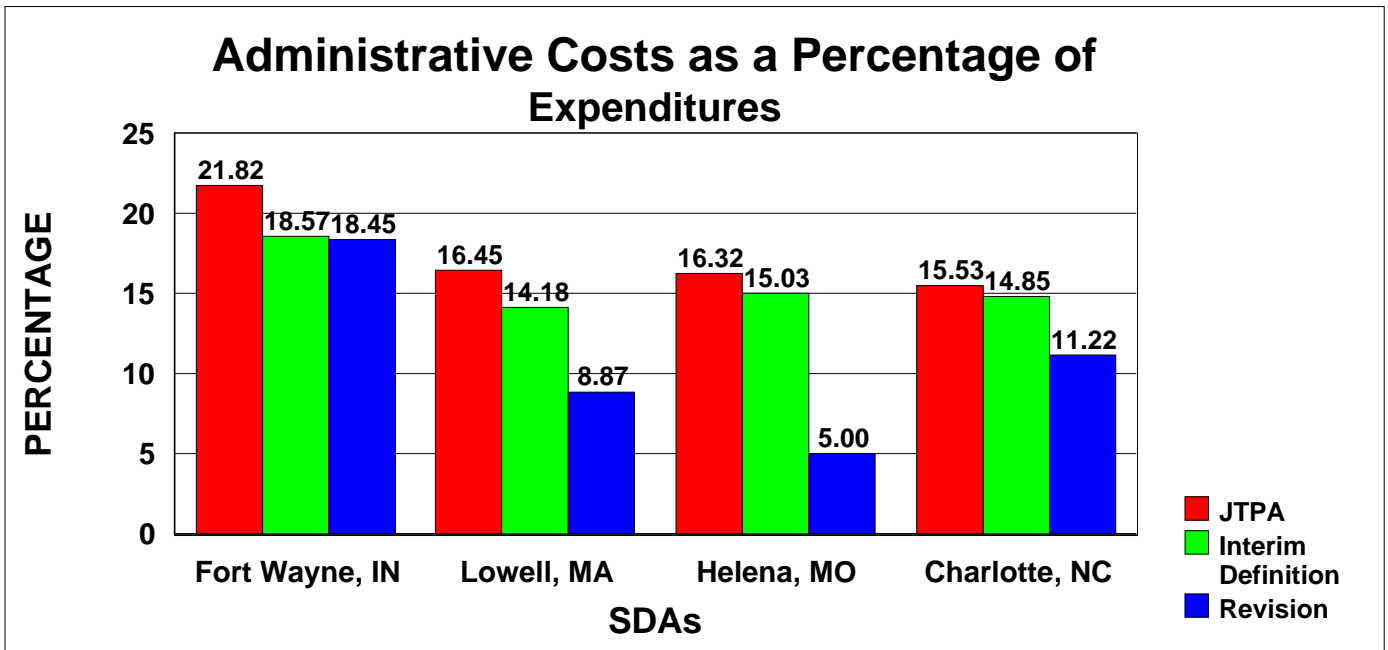
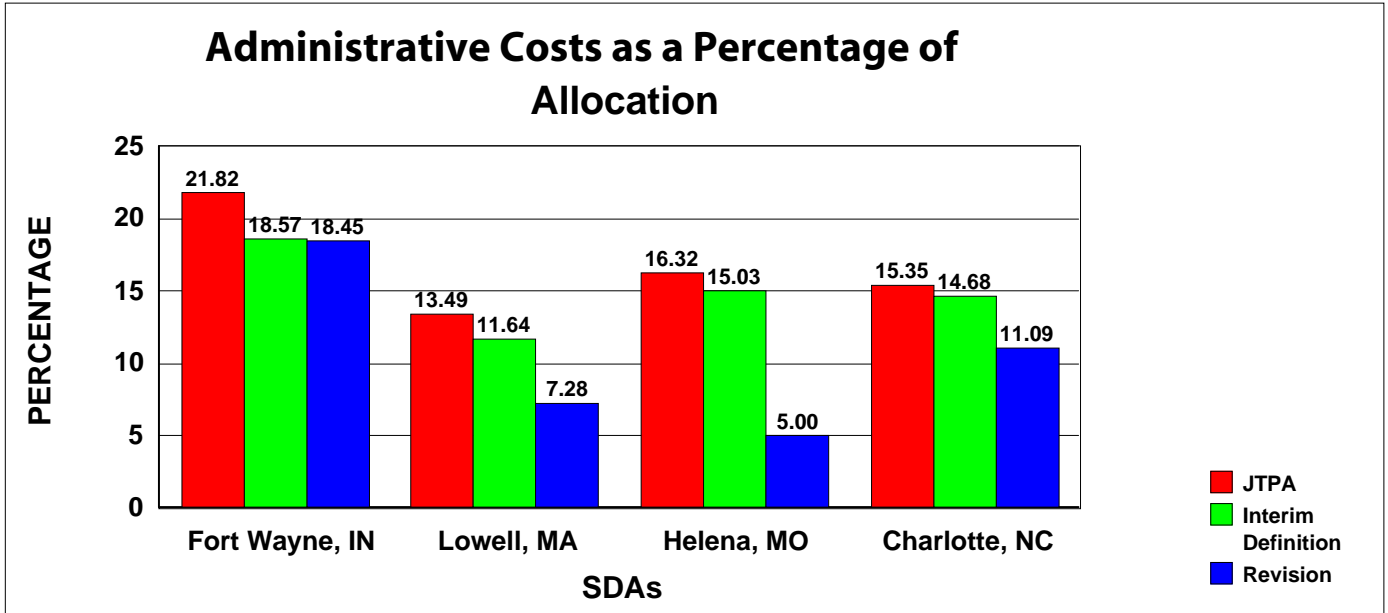
For four SDAs, certain agreed-upon procedures were performed with the following results:

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Preliminary Work</p> <ol style="list-style-type: none"> 1. Review revised administrative cost definition prepared by ETA 2. Arrange and conduct entrance conference with SDA official to review engagement objectives 	<p>Differences were noted in the classification of some costs as program under the proposed revised WIA administrative cost definition which were administrative under the interim definition. The revised WIA administrative definition adjusted the following costs from administrative costs to program costs:</p> <ul style="list-style-type: none"> # All costs under awards to subrecipients and vendors below the One-Stop operator level for program functions. # All non-administrative costs of One-Stop operators. # All costs involved with performing oversight and monitoring of program subrecipients and vendors. # Costs of individuals involved in negotiating MOUs and developing program plans. Differences in how administrative costs were defined were enumerated.
<p>Reclassification of Costs</p> <ol style="list-style-type: none"> 1. Interview SDA officials and review records to determine what costs the SDA had incurred in the 1997 program year which were now program costs under the revised definition of WIA administrative costs. 2. Adjust the results of the initial agreed upon procedures for the computation of JTPA costs under the original WIA regulations for the new definition of administrative costs under the revised WIA regulations. 	<p>The SDA officials provided the details of the administrative costs under the original WIA regulations which would be reclassified to program costs under the proposed revised definition.</p> <ul style="list-style-type: none"> # Two SDAs - Lowell, MA (7.28%) and Helena, MO (5.00%) - would have been in compliance with the 10 percent cost limitation using the proposed revised definition. # One SDA - Charlotte, NC (11.09%) was 1 percent over the limitation. # One SDA - Fort Wayne, IN (18.45%) did not benefit from the revised definition because it did not have any subrecipient or vendor costs, but essentially operated the entire JTPA program in-house. The in-house delivery of program services by local boards is not contemplated under WIA Title I-B, as provided in Section 117 (f) of the Act.

AGREED-UPON PROCEDURES AND RESULTS

<p>Views of SDA Officials</p> <p>Interview SDA officials regarding the revised regulations and their estimated time required to negotiate MOUs.</p>	<p>We surveyed the SDA officials for their comments regarding the revised statutory and/or regulatory language of the WIA regulations and the estimated time required to negotiate MOUs with their One-Stop partners.</p> <p>A summary of those responses follow:</p> <ul style="list-style-type: none"> \$ Three of the four SDAs= officials believed that ETA-s proposed revised definition of administrative costs would allow their SDA to comply with the WIA regulations. The fourth SDA, Ft. Wayne, IN, responded that the proposed revised definition did not provide relief to their SDA for purposes of this survey because they did not contract out any of their Adult IIA training. \$ One of the four SDAs= officials had incurred time during the 1997 program year negotiating MOUs and was able to determine approximately 75 hours were spent on such activities. The other three SDAs could not provide specific hours, but estimated that a significant amount of time would be involved.
<p>Statement of Facts</p> <p>Prepare statement of facts for SDA official to conduct exit conference.</p>	<p>An exit conference was conducted at which the SDA officials were presented with the Statement of Facts which summarized the results for their SDA of the administrative costs which would be reallocated to program costs under the revised WIA regulations. A summary of these results is contained in Appendix 2.</p>

APPENDIX 1



APPENDIX 2

The total JTPA allocation to the SDAs for the 1997 program year per SDA was:

GRANTEE	TOTAL ALLOCATION
Job Works, Fort Wayne, Indiana	\$777,896
Lowell Office of Employment and Training, Lowell, Massachusetts	\$710,650
Montana Job Training Partnership, Inc., Helena, Montana	\$2,549,188
City Of Charlotte Employment and Training Department, Charlotte, North Carolina	\$590,998

The JTPA administrative costs, the WIA administrative cost, and the administrative costs under the revised WIA regulations, as a percentage of the total JTPA allocation to the SDAs were:

GRANTEE	JTPA Admin. Cost	%	WIA Admin. Cost	%	WIA Revised Admin. Cost	%
Fort Wayne, IN	\$169,738	21.82	\$144,417	18.57	\$143,515	18.45
Lowell, MA	\$95,891	13.49	\$82,704	11.64	\$51,733	7.28
Helena, MO	\$416,148	16.32	\$383,155	15.03	\$127,562	5.00
Charlotte, NC	\$90,699	15.35	\$86,773	14.68	\$65,559	11.09

The adjustments reallocating costs from JTPA administrative costs to the administrative costs as defined by the revised WIA regulations are as follows:

Adjustments	SDAs			
	Fort Wayne, IN	Lowell, MA	Helena, MO	Charlotte, NC
JTPA Administrative Costs	\$169,738	\$95,891	\$416,148	\$90,699
Salaries & Benefits	(25,221)	(28,058)	(89,762)	0
Sub-Contractors	0	(16,100)	(198,824)	(25,100)
Other	(1,002)	0	0	(40)
Total Adjustments	(26,223)	(44,158)	(288,586)	(25,140)
WIA Revised Administrative Costs	\$143,515	\$51,733	\$127,562	\$65,559