

**FINANCIAL-RELATED AND PERFORMANCE AUDIT
OF THE INDUSTRIAL EXCHANGE, INC.,
GOVERNOR'S 15 PERCENT WELFARE-TO-WORK
DISCRETIONARY FUNDS PROGRAM
DECEMBER 16, 1998, THROUGH JUNE 30, 2001**



**Office of Inspector General
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ACRONYMS AND ABBREVIATIONS

ABE	Adult Basic Education
CAP	Cost Allocation Plan
CFR	Code of Federal Regulations
DHS	Department of Human Services
DOL	Department of Labor
ETA	Employment and Training Administration
GAAP	Generally Accepted Accounting Principles
GED	General Equivalency Diploma
HUD	Housing and Urban Development
IndEx	Industrial Exchange, Incorporated
MTTA	Metropolitan Tulsa Transit Authority
MTCC	Metropolitan Tulsa Chamber of Commerce
OESC	Oklahoma Employment Security Commission
OIG	Office of Inspector General
OJA	Office of Juvenile Affairs
OJT	On-the-Job Training
OMB	Office of Management and Budget
PSO	Public Service Company of Oklahoma
TANF	Temporary Assistance for Needy Families
THA	Tulsa Housing Authority
WtW	Welfare-to-Work

EXECUTIVE SUMMARY

The Tulsa Housing Authority (THA) selected Industrial Exchange, Inc. (IndEx), a 501(c)(3) nonprofit organization, as a service provider under the Governor's 15 percent Welfare-to-Work (WtW) Discretionary Grant funds. It was the THA's executive director's understanding that THA's WtW contract funds were to go to IndEx. Consequently, THA circumvented required procurement procedures by sole source contracting with IndEx under THA's contracts with the Oklahoma Employment Security Commission (OESC) and the Office of Juvenile Affairs (OJA).

THA's sole source procurement and poor oversight of its contracts with IndEx contributed to IndEx's waste, abuse, and mismanagement of WtW funds. IndEx provided questionable training through its work experience program that resulted in dismal performance outcomes. IndEx failed to come close to meeting its contract performance goals and it mismanaged, wasted, and abused WtW funds. As a result of these issues, the OIG questions the entire \$561,649 for the IndEx WtW program.

THA's and OESC's Responses to Our Draft Report

OESC responded that it did not direct THA to contract with IndEx, and the Governor's office did not direct OESC to get the money to IndEx. THA responded that as a result of the way it was solicited to participate in the Governor's WtW 15 percent program and contract language in its contracts with both OESC and OJA, THA understood the funds were to go to IndEx. Therefore, THA sole sourced the service agreements with IndEx.

Rather than responding to IndEx's poor financial and program performance, both THA and OESC discussed IndEx's history prior to receiving the WtW contracts and IndEx's original purpose and program design. THA commented on the difficulty of recruiting participants prior to the revised eligibility criteria. However, THA believes IndEx deceptively inflated its enrollment and attendance numbers in order to make its program appear more effective than it was. Furthermore, OESC stated it was surprised and extremely disappointed in IndEx's performance documented by the OIG.

Finally, OESC does not think that all costs should be questioned based on the fact that some participants were served.

THA's and OESC's entire narrative responses are included in this report at Appendix I.

OIG's Conclusion

In our opinion, the IndEx procurement was not in accordance with administrative requirements, no matter the intent. Furthermore, the bottom line is IndEx's financial accountability systems were inadequate, unallowable costs were incurred, and program performance was extremely low based on the costs incurred, especially when very little funds went to the participants; i.e., funds were used to sustain IndEx. Consequently, our position remains unchanged.

Recommendations

We recommend the Assistant Secretary for Employment and Training disallow questionable costs of \$561,649 for IndEx's dismal performance outcomes and their mismanagement, waste, and abuse of WtW funds and for THA's procurement of services from IndEx without competition.

Furthermore, we recommend the Assistant Secretary direct the State to ensure:

- contractors and subcontractors adhere to Federal and State regulations in procuring services from providers;
- service providers use an appropriate method of allocating costs;
- service providers maintain adequate documentation to support allocation of costs to WtW programs;
- service providers maintain an adequate time distribution system that reflects the actual activity of employees; and
- service providers properly account for program income.

BACKGROUND

Industrial Exchange, Inc. (IndEx), was established in 1992 by the Tulsa Chamber of Commerce as a 501(c)(3), nonprofit organization. IndEx was designed to reduce labor costs for local companies and keep jobs in the region by contracting with these companies to perform light manufacturing and packaging work at a central site through a work experience program.

As part of a special audit that the State of Oklahoma Office of the Auditor and Inspector performed on the Oklahoma Employment Security Commission's (OESC) WtW program, the auditors noted several problems with a WtW program being operated by IndEx, a subrecipient. Based on the State Auditor and Inspector's referral, the Office of Inspector General performed a financial-related and performance audit of IndEx's WtW program.

IndEx entered into two service agreements (hereafter referred to as Contracts 1 and 2) to operate the WtW programs.

Contract 1: The OESC issued a \$150,000 subgrant to the Tulsa Housing Authority (THA), which was funded by the Governor's 15 percent WtW Discretionary Grant funds. Of this \$150,000, THA retained \$19,500 for administrative oversight and gave IndEx \$130,500 to provide training and services to eligible WtW participants. Contract 1 covered the period December 16, 1998, through September 29, 1999.

Contract 2: The OESC issued a \$1,011,228 subgrant funded by the Governor's 15 percent WtW Discretionary Grant funds to the Office of Juvenile Affairs (OJA), which subcontracted \$372,741 to the THA. THA gave the entire \$372,741 to IndEx to provide training and services to eligible WtW participants. Contract 2 covered the period April 9, 1999, through June 30, 2001. After IndEx spent all of its funds under Contract 2, it spent \$38,908 from another Governor's 15 percent WtW Discretionary Grant-funded \$600,000 grant that THA received from OESC. Because of concerns about the program, THA took over the program from IndEx, and then OESC froze the funds pending completion of the State Auditor and Inspector's review.

IndEx's WtW work experience program consisted of contracting with vendors such as Hilti and Whirlpool to assemble and package products. IndEx provided the labor and worksite. The vendors paid IndEx a negotiated price for the product. IndEx did not pay 41 percent of the WtW participants for their labor; instead, the participants were allowed to keep their TANF benefits.

IndEx did not assess most participants with a training plan, nor did it have documents to support post-employment activity such as computer classes or basic skills training.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to perform a financial-related and performance audit to determine:

- why procurement procedures were not followed in selecting a WtW service provider;
- if costs reported by IndEx were allowable, allocable, properly classified, and supported by adequate documentation;
- if participants were eligible, adequately served, and if funds expended on the program/participants were reasonable for the services received; and
- if performance met the contract and WtW rules and regulations.

We performed a financial-related and performance audit of WtW discretionary funds received by IndEx from two contracts. The audit period for Contract 1 was December 16, 1998, through September 29, 1999; for Contract 2, April 9, 1999, through June 30, 2001.

We reviewed:

- The State Auditor and Inspector's special audit report for July 1, 1998, through June 30, 2000.
- The State Auditor and Inspector's working papers for their continuing work subsequent to issuance of the special audit report.
- IndEx's and THA's responses to the State Auditor and Inspector's findings from continuing work subsequent to issuing their audit report.
- OESC's monitoring reports. Since problems noted in the monitoring reports and auditors' working papers were extensive, and since participants enrolled and funds received by IndEx were nominal, we analyzed all participant files and all financial transactions.
- Documentation provided by IndEx and THA to support charges to the WtW program.

We interviewed some IndEx and THA staff, some participants, and an owner of a company that contracted with IndEx.

In many cases, we adopted and/or expanded on the State Auditor and Inspector's findings.

Our audit work was not intended to express an opinion on the financial statements or program costs claimed. Therefore, we did not consider the internal control structure and no such opinion is given.

Our audit was performed in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States.

FINDINGS

- 1. THA did not follow procurement procedures in order to select IndEx as a WtW service provider; consequently, THA contracted with an organization not financially solvent or proven successful enough to administer Federal grant funds.**

THA, whether specifically directed or based on a misunderstanding, circumvented the procurement process by issuing sole source contracts to IndEx to be a WtW service provider. Some of the funds THA passed down to IndEx were received directly from OESC. Other funds THA passed down to IndEx went from OESC through the Office of Juvenile Affairs (OJA) to THA.

In response to the State Auditor and Inspector's finding that procurement procedures were not followed, THA stated:

OESC staff informed THA staff the Governor had instructed that such funds be directly awarded from THA to IndEx, Inc. . . .

In response to our draft report THA responded:

No THA employee can positively attest to any employee of OESC or OJA stating as a fact the Governor directed such funds go to IndEx.

However, THA's response to our draft report indicated their understanding was that the funds were to go to IndEx:

Tulsa Housing Authority did not competitively select IndEx as a service provider. THA's first notice of the availability of WtW funds came from a telephone conversation with Mr. Wayne Rowley, President of IndEx. . . . Mr. Rowley informed the Executive Director of THA that the Governor desired to send part of his 15% Welfare to Work (WtW) discretionary funds to IndEx. It was also the understanding of THA staff based upon subsequent discussions with the staff of the Oklahoma Employment Security Commission (OESC) and the Office of Juvenile Affairs (OJA) that such funds were to come to IndEx. . . .

Regardless of how IndEx was selected as a WtW service provider, in our opinion, IndEx was not financially solvent to successfully administer the WtW program.

IndEx's inadequate financial position is demonstrated by the fact that as of December 31, 1998, IndEx's aged accounts payable ledger showed a balance of \$23,780 for accounts over 90 days past due. As of December 31, 1999, IndEx's aged accounts payable ledger showed a balance of \$43,910 for accounts over 90 days past due. In addition, for 9 of 27 months between January 1999 and March 2001, IndEx incurred

\$3,150 of insufficient funds charges and overdraft and returned items fees on its bank statements.

IndEx also did not have a record of past success as a service provider. A September 1997 report -- 15 months prior to THA's contract with IndEx -- written by Manpower Demonstration Research Corporation stated:

. . . no reliable data are available on the rate of job placements or on retention in unsubsidized work, which would provide a measure of IndEx's overall success.

In addition, an IndEx official informed the OIG that IndEx did not have experience with **Federal programs** before receiving the WtW funds.

29 CFR part 95, sec. 43 Competition, provides the following:

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. . . . Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient. Any and all bids or offers may be rejected when it is in the recipient's interest to do so.

Sec. 95.44, Procurement procedures, provides the following:

(d) Contracts shall be made only with responsible contractors who possess the potential ability to perform successfully under the terms and conditions of the proposed procurement. Consideration shall be given to such matters as contractor integrity, record of past performance, financial and technical resources or accessibility to other necessary resources. In certain circumstances, contracts with certain parties are restricted by agencies' implementation of E.O.'s 12549 and 12689, 'Debarment and Suspension.' See 29 CFR Part 98.

(e) Recipients shall, on request, make available to DOL, pre-award and procurement documents, such as request for proposals or invitations for bids, independent cost estimates, etc. . . .

Sec. 95.45, Cost and price analysis, provides the following:

Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.

Sec. 95.46, Procurement records, provides the following:

Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.

As a result of THA selecting an insolvent service provider with no record of past performance of administering Federal funds, WtW participants received training that was of little value that resulted in poor performance outcomes. Furthermore, IndEx's financial management system was inadequate to administer Federal grant funds. The OIG questions the validity of IndEx's selection as a WtW service provider and also questions the validity of the training as a result of this procurement.

THA's and OESC's Responses to Our Draft Report and OIG's Conclusions

Some of THA's response regarding sole source contracting has been incorporated into the finding. Other comments included:

- OESC approved THA's sole source service agreement with IndEx.
- Administrative requirements allow for sole source contracts.

While it was THA's **understanding** that OESC intended for THA to sole source contract with IndEx and while administrative requirements allow for sole source contracts, THA has not demonstrated that the requirements for a sole source contract were met.

Regarding IndEx's insolvency, THA responded that the financial conditions discussed in the draft report do not necessarily indicate insolvency. Yet, THA further stated:

It is clear that if you have the luxury of looking back for 27 months you could state this fact was an indicator of potential financial problems. A retrospective look back from 2001 is not possible in 1998, when the contract began.

Tulsa Housing Authority had no reason to believe, prior to or subsequent to the contracts that IndEx was in financial difficulty or insolvency.

THA responded that because of IndEx's past reputation (based on newspaper and magazine articles) and the individuals and the organization involved with IndEx, *THA had no reason to believe that IndEx was or would become insolvent.* As the entity responsible for contracting with IndEx, it was THA's responsibility to determine IndEx's financial integrity and ability to perform.

THA also disagreed with the OIG's statement that IndEx did not have experience with Federal programs prior to receiving the WtW funds. Our position was based on a statement made by IndEx's executive director. THA indicates that IndEx "collaborated" with THA on Department of Housing and Urban Development grant programs and provided a major role in administration of the programs. However, THA did not define what collaboration and administrative roles IndEx played in those grants. We assume that the IndEx's executive director would know what experience IndEx had in those programs and did not consider that role as "administering Federal grant funds."

The OESC responded that no one at OESC directed THA to contract with IndEx, and that the OIG has no evidence that the Governor's office directed OESC to give money to IndEx.

The OIG has evidence that:

- The Governor wanted the IndEx program replicated in various communities.
- The OESC determined that a competitive process to replicate the IndEx program ran the risk of not receiving eligible, responsive bids and the potential loss of the grant funds.
- The OESC determined that using governmental units was the best alternative to replicate the IndEx program.
- A Governor's office representative's position was to find appropriate projects, primarily IndEx, where OESC could give the money to governmental organizations.
- The OESC used Mr. Wayne Rowley, IndEx's president, to "scare up some governmental entity" in some communities to replicate the IndEx program.
- The THA did not initiate the contract with OESC nor did THA "apply" for the WtW funding. The THA's first notice of WtW fund availability came from a conversation between Mr. Wayne Rowley and THA's executive director.
- Mr. Rowley informed the THA executive director that the Governor desired to direct part of the WtW 15 percent discretionary funds to IndEx, Inc., but needed a governmental entity to act as a pass through for the funds because OESC could not directly give the money to IndEx, Inc.

The above evidence, while maybe not documenting that the Governor's office **directed** OESC, and OESC **directed** THA, to contract with IndEx, Inc., according to affidavits from both THA's executive director and grants administrator, the intent was clear to THA. Accordingly, THA sole source contracted with IndEx, with the OESC's approval of the service agreement between IndEx and THA.

Regardless of how IndEx, Inc., obtained its contracts from THA:

- IndEx, Inc., had poor performance.
- IndEx's financial management systems were inadequate to account for Federal grant funds.
- Very little of the grant funds were payments to participants; i.e., the funds went to support IndEx.

The OIG's position that the contracts between THA and IndEx were inadequate procurements remains unchanged.

Both THA's and OESC's entire responses can be found at Appendix I at the end of this report.

2. IndEx spent \$561,649 of the Governor's WtW Discretionary contract funds while providing inadequate training and services to only a few participants resulting in dismal program outcomes.

The \$561,649 IndEx spent on the WtW program was not reasonable based on the number of participants served and the type of services provided. In our opinion, IndEx used the Governor's WtW Discretionary funds to keep the nonprofit solvent rather than to benefit TANF recipients. The vast majority of the funds were spent on administrative costs, mostly when few, or no, participants were enrolled — 54 percent of the participants were enrolled in the last 9 months of the inclusive 30-month contract period. Furthermore, approximately 41 percent of the few enrollees received no wages from IndEx even though IndEx was compensated by businesses for the services the participants provided. These participants received only their TANF benefits.

IndEx enrolled all participants in work experience described as *light manufacturing, packaging, assembly*, or occasionally *mail* regardless of their educational background or experience. Of the 59 individuals, 18 (30 percent) were high school graduates or had their GEDs at the time they enrolled, including 2 participants with 2 years of college. The work experience activities required very little skill to perform; therefore, the participants gained little useable skills.

Program outcomes

IndEx charged the WtW program \$561,649 for the period December 16, 1998, to June 30, 2001, during which time 80 percent (47) of the 59 individuals IndEx enrolled either dropped out, were not eligible, or were dismissed. Only 12 percent (7) obtained employment.

Of these 59 individuals:

- 24 were enrolled between December 1998 and September 1999.
- 3 were enrolled between October 1999 and September 2000.
- 32 were enrolled between October 2000 and June 2001.

While 54 percent of the participants were enrolled during the last 9 months of the 30 months of the two contracts, 88 percent of the two contracts' funds were spent prior to October 1, 2000, when only 46 percent of the participants were enrolled. Furthermore, between April 1999 and September 2000, IndEx spent 93 percent of Contract 2 expenditures on only 9 percent (3 of 35) of the participants enrolled under Contract 2.

Specifically, of the 59 participants in IndEx's work experience activity:

- 28 participants (47 percent) **dropped out** of the program.
- 8 participants **did not complete** the program because IndEx **dismissed** them for various reasons.
- 7 participants **quit the program** before IndEx determined them eligible. (The OIG did not consider these individuals to be participants.)
- 4 participants **did not meet** the program's **eligibility criteria**. (See attachment 1, participant synopsis 07B, 26B, and 32B for examples.)
- 1 participant **transferred** from one WtW grant to another.
- 2 participants **transferred** to another program.
- 2 participants **obtained a General Equivalency Diploma (GED)** and **dropped out** of the program.
- 7 participants **obtained employment**; two of these also **obtained a GED**.

Of the seven individuals who obtained employment:

- One obtained seasonal work.
- One remained employed by IndEx performing the same type of work she had been doing in her work experience (see attachment 1, participant synopsis 13A).
- One worked less than 6 months for a medical center earning \$5,439, and then she worked for a temporary employment agency and earned less than \$167.
- One quit the work experience program and obtained a part-time job herself at a fast food restaurant.
- One obtained employment with a temporary employment agency for approximately 1 month after quitting IndEx and soon became unemployed.
- One obtained employment with a nonprofit organization at \$8 per hour (see attachment 1, participant synopsis 21B).
- One obtained employment performing factory work at \$7.50 per hour and was fired approximately 2 months later.

Excessive expenditures on few participants

In addition to dismal performance outcomes, as previously discussed, IndEx spent large portions of the funds under each contract when no, or few, participants were enrolled, and when participants, on average, stayed in the program for a short time. The following schedule shows the number of participants enrolled per month, the average days of enrollment per month, and the cost to the WtW program per month.

CONTRACT 1			
Month Enrolled	Number Enrolled	Average Days Enrolled	Cost to WtW
Dec 1998/Jan1999	0	0	\$ 18,827
Feb 1999	8	8	19,125
Mar 1999	6	13	18,426
Apr 1999	8	7	27,261
May 1999	3	11	979
Jun 1999	2	10	40,405
Jul 1999	1	16	3,398
Aug 1999	3	9	682
Sep 1999	2	14	20,898
Total To WtW			\$ 150,001¹

CONTRACT 2			
Month Enrolled	Number Enrolled	Average Days Enrolled	Cost to WtW
Apr 1999 – Sep 1999	0	0	\$ 43,760
Oct 1999	2	10	24,107
Nov 1999	2	15	30,395
Dec 1999	3	10	41,982
Jan 2000	2	11	33,590
Feb 2000	2	9	27,812
Mar 2000	2	8	22,947
Apr 2000	1	12	16,407
May 2000	1	19	20,709
Jun 2000	1	5	23,251
Jul 2000 – Sep 2000	0	0	59,867
Total To WtW			\$ 344,827

The table for Contract 2 only covers April 1999 through September 2000 because IndEx spent 93 percent of the funds (\$344,827) during this period while enrolling only three participants, an average of \$114,942 per participant.

IndEx spent the remaining \$27,914 (\$372,741 - \$344,827) under this contract between October 2000 and December 2000. The IndEx program incurred an additional \$38,908 of costs between December 2000 and June 2001 without the contract being modified to add the additional funds. THA directly paid these additional IndEx program costs from another

¹ Difference between \$150,001 in table and \$150,000 contract amount is due to rounding.

\$600,000 Governor's WtW Discretionary grant THA received from OESC. THA intended to pass this \$600,000 down to IndEx but due to the controversy surrounding the program, THA took over the program from IndEx and OESC later froze the funds pending completion of a review by the Oklahoma State Auditor and Inspector's office.

OMB Circular No. A-122 Attachment A, provides:

(3.) Reasonable costs. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. . . . In determining the reasonableness of a given cost, consideration shall be given to: a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award. b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award.

IndEx provided work experience that offered little useful skills and resulted in dismal performance outcomes. Because the participants were very few in number, received very little training, stayed in the program a very short period of time on average, and received dismal positive outcomes as a result of this training, we question the total \$561,649 IndEx and THA spent from their WtW funds.

THA's Response to Our Draft Report and OIG's Conclusions:

THA disagrees that IndEx provided inadequate training and services to only a few participants resulting in dismal program outcomes. THA contends that the segment of the population it served and the eligibility requirements imposed by the Federal government made it difficult to recruit eligible clients. However, THA provided that IndEx was deceptive by inflating its enrollment numbers as submitted on its monthly program summaries. This deception led THA to believe, at the time, that the attendance in the program was much higher than it actually was. While the eligibility criteria may have been stringent, it does not change the fact that the outcomes of the program were dismal. Also, THA acknowledged that IndEx was deceptive and inflated its enrollment numbers.

THA agreed that many participants received no wages and received only their TANF benefits, but THA contends that participants had a choice to receive wages or continue with their TANF benefits. Contrary to THA's assertion, all participants were not given a choice of receiving wages or continuing to receive their TANF benefits. We interviewed some participants and at least two said they were told that they had to participate in the program in order to keep their TANF benefits; i.e., they were not given an option. By not paying wages to participants, more money was available to IndEx.

THA stated that the IndEx program's purpose was not to teach an actual job or an actual job skill, but was to allow participants with little or no exposure to a work environment, gain real work experience in a learning environment. The purpose of the program may have been to give participants work experience in a learning environment, but several participants already had extensive work experience. In fact some participants had years of experience in IndEx's work experience prior to enrolling into IndEx's WtW program.

THA responded that IndEx, Inc., did not charge the WtW program \$561,649 for the period December 16, 1998, to June 30, 2001; \$38,908 of incurred costs were approved by OESC to be paid by THA from the third grant of WtW funds of \$600,000. The OIG concurs that \$38,908 was from a third grant THA received from OESC. However, these funds were spent by THA on behalf of IndEx's Contract 2 program. We also realize THA had no contract for services with IndEx for the expenditure of these funds; however, the funds were used for the same participants.

THA contends that the OIG's finding that three participants were enrolled between October 1999 and September 2000 is not reflective of any actual contract period, and THA believes that the auditor selected this period, which reflects few participants, in order to further emphasize the negativity of this report. The OIG realizes the period for Contract 2 initially covered April 1999 through January 2001, but the fact remains that IndEx enrolled **no** participants between April 1999 and August 1999 under this contract and enrolled only **three** participants between October 1999 and September 2000. The fact also remains that IndEx spent 93 percent of the funds between April 1999 and September 2000 when only three participants were enrolled.

THA responded that OESC suspended the WtW funds on February 2, 2001, and would not allow THA to recruit any additional participants. This action by OESC further impeded the success of the WtW program and attributed to the higher cost per participant. The OIG acknowledges that OESC suspended the WtW funds; however, these funds were from a third grant THA received from OESC. After IndEx spent the funds under Contract 2, THA continued spending on this program with funds from the third grant without modifying the contract. The suspension of the third grant had no bearing on the success of the program under review because the contract was not modified to add the additional funding.

Finally, THA responded that while the draft report states IndEx spent the remaining \$27,914 under Contract 2 between October 2000 and December 2000, participants were served for the remainder of the contract period to January 31, 2001. The OIG also acknowledges that participants were served under Contract 2 through January 31, 2001. We found that 32 participants were served between October 2000 and January 2001 for approximately \$40,190 (\$12,277 of this from third grant). We question why IndEx spent \$344,827 to serve 3 participants when 32 were served for \$40,190.

THA's entire response is included at Appendix I to this report.

3. IndEx did not come close to meeting either contract's performance goals.

The following tables show IndEx's proposed deliverables as well as actual performance.

	Contract 1 Deliverables	Actual Performance
Number of Participants	120	24
Employment Status at Termination:		
Unsubsidized Employment (UE)	100	4
Full Time	90	2
Part Time	10	2
Remain 6 months in UE	50	2
Other Terminations	20	20

	Contract 2 Deliverables	Actual Performance
Number of Participants	50	35
Employment Status at Termination:		
Unsubsidized Employment (UE)	25	3
Full Time	25	3
Part Time	0	0
Remain 6 months in UE	25	1
Other Terminations	0	32

As the tables above show, IndEx's performance was dismal. IndEx enrolled only 20 percent (24/120) of the number of participants intended under Contract 1, yet spent all contract funds even though no funds were spent on participants' wages; i.e., participants received their TANF benefits only. While 70 percent (35/50) of Contract 2 goals for enrollment were met, 91 percent (32 of 35) of the participants were not enrolled until 17 months of the contract had expired, and 93 percent of the contract funds had already been spent on 9 percent of the participants.

Under Contract 1, only 4 percent (4/100) of the entered unsubsidized employment goal was reached; under Contract 2, only 12 percent (3 of 25).

In our opinion, these dismal results support our position that IndEx was more concerned with remaining solvent than in enrolling and adequately training WtW qualified individuals.

THA's Response to Our Draft Report and OIG's Conclusions:

THA disagrees that IndEx did not meet its contract's performance goals. THA contends that IndEx met participation goals even though it was subject to stringent contracted and regulatory eligibility requirements, while also striving to place as many participants as possible in employment. THA concludes that if the auditors had considered the amended performance goals, the auditors' conclusions would have been different.

The OIG disagrees. The OIG acknowledges that the figures on the program-planning summary provided by THA in its response are different from those provided to us during our review. We question why the date (June 24, 1999) of the program planning summary provided to us during our review of Contract 1 matches the date on the summary provided by THA in its response but the figures are considerably different.

The THA responded that on October 15, 1998, it attended training at the OESC at which time THA was asked to complete the program planning summary with an estimate of how the money would be spent and an estimate of the number of participants to be served and the number that would be placed in unsubsidized employment. The trainers stated that this form could be revised at any time to show a more accurate picture of how the money was being spent and who was participating in the program. THA indicated that the Contract 1 program planning summary was revised on January 25, 1999, and approved by OESC, and the Contract 2 program planning summary was revised on November 13, 2000, and approved by OJA.

The Contract 1 documentation submitted with THA's response was dated June 24, 1999, not January 25, 1999, as THA stated. Consequently, the program-planning summary was revised 3 months before the contract ended, and the enrollment numbers matched enrollments. The Contract 2 program planning summary was revised when only \$13,748 -- less than 4 percent of the contract funds -- remained in the contract.

The OIG questions why IndEx's funds were not reduced when the estimated deliverables were **drastically** reduced. In our opinion, IndEx revised its planned deliverables to reflect its limited performance. Just because OESC approved the revised planning summaries does not change the fact that IndEx's performance was dismal.

4. IndEx's financial management system was inadequate to account for Federal grant funds.

IndEx's financial management system did not meet the financial management systems standards required for nonprofit organizations that administer Federal grant funds. Office of Management and Budget (OMB) Circular No. A-110 establishes uniform administrative requirements for Federal grants to nonprofit organizations. These requirements are codified at Title 29 CFR part 95.

29 CFR, section 95.21(b), Standards for financial management systems provides:

Recipients' financial management systems shall provide for the following:

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements. . . .*
- (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, outlays, income and interest.*
- (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.*
- (4)*
- (5)*
- (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.*
- (7) Accounting records including cost accounting records that are supported by source documentation.*

The inadequacy of IndEx's financial management system is exemplified by the following deficiencies:

- IndEx did not have a cost allocation system to ensure that costs were charged to the contracts only to the extent that the contracts benefited from the costs.
- IndEx charged unallowable costs, including precontract costs, to the contracts.
- IndEx charged costs to the contracts without documenting the costs.
- IndEx did not properly account for program income.

A. No cost allocation plan (CAP).

IndEx did not have a written CAP and did not use an adequate allocation method. The following table shows examples of IndEx’s excessive and inconsistent charges to WtW as a result of not having a written or adequate CAP. The table shows a sample of expenses charged to WtW during **December 1998 through July 1999** under Contract 1. IndEx operated other programs at the time and should have shared the costs.

	Dec/Jan	Feb	Mar	Apr	May	Jun	Jul
Executive Director’s Salary ²	88%	60%	80%	80%	80%	8%	15%
Rent	46%	50%	50%	80%	80%	--- ³	--- ³
Utilities	100%	53%	53%	100%	--- ⁴	--- ⁴	--- ⁴
Supplies	100%	53%	53%	100%	100%	--- ³	--- ³

The amounts charged to the WtW program were not based on number of participants enrolled or have a relationship to participant activity. IndEx stated that they expected the WtW funds to be approximately 30 percent of all funds available, and they based their allocation on this funding level. It appears IndEx’s allocation method was based on funds available; however, it was not based on the 30 percent as they stated.

OMB Circular A-122 Attachment A 4. Allocable cost provides:

a. A cost is allocable to a particular cost objective, such as a grant, contract . . . in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purposes in like circumstances and if it:

- (1) Is incurred specifically for the award.*
- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received . . .*

WtW Financial Management TAG, Chapter 6, Cost Pools, Written CAP, provides the following:

The cost pool should be described and documented in a written CAP that is used in allocating all allocable direct costs within the WtW program to the appropriate program activity and cost category.

WtW Financial Management TAG, Chapter 6, Allocation Bases, provides the following:

An allocation basis is acceptable if it represents a fair measure of cost generation or cost benefit, and if it results in an equitable distribution of the costs of services rendered or goods provided.

² IndEx also charged Contract 2 for the Executive Director’s salary in April through July.

³ The expense was not charged to the WtW program under this contract for these months.

⁴ IndEx did not list utilities as a category on their monthly invoice for this month.

IndEx also did not have a written CAP under Contract 2. The following table shows examples of IndEx's excessive and inconsistent costs charged to its WtW program. The table shows a sample of expenses charged to WtW during **April 1999 through December 1999 and June 2000 through August 2000**. IndEx accounted for line item expenses differently under the two contracts. Therefore, the table shows examples of expenses accounted for the same as in Contract 1.

	Apr	May	Nov	Dec	Jun	Jul	Aug
Executive Director's Salary	8%	10%	100%	100%	70%	70%	60%
Rent	25%	25%	90%	90%	50%	55%	60%

The percentage of costs charged to the program was not based on number of participants enrolled or have a relationship to participant activity. For example, IndEx had no participants April 1999 through September 1999; however, IndEx allocated \$43,760 to the WtW program. They had two participants enrolled in November 1999 and three in December 1999 and allocated \$72,377 to the WtW program. IndEx allocated \$60,367 to WtW in April 2000 through June 2000 when it had one participant in the program.

IndEx told the OIG that its cost allocation was based on availability of funds. This appears accurate for this contract because IndEx increased the percentages and amounts they charged to WtW after THA modified the contract and increased IndEx's funds. For example, in September 1999 IndEx submitted an invoice for reimbursement totaling \$8,200. After THA modified the contract in December 1999, IndEx resubmitted September's invoice for an additional \$10,121. IndEx submitted an invoice in October 1999 that totaled \$3,130. After the modification, IndEx resubmitted the invoice for an additional \$20,977.

Since IndEx did not have a written CAP or acceptable allocation method, we could not determine WtW's allocable share of costs. However, we determined that the percentage of costs charged to WtW was inconsistent and excessive since IndEx operated programs other than WtW during this period. Since the OIG could not audit IndEx's other programs, we do not know how much IndEx allocated to these programs.

B. Unallowable costs charged to the contracts.

Precontract costs -- IndEx allocated \$2,022 to its WtW Contract 1 for costs incurred before the December 16, 1998, start date. (See attachment 2.)

OMB Circular A-122 Attachment B, paragraph 38 states:

Pre-award costs are . . . allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

IndEx did not obtain written approval of the awarding agency to charge costs to the WtW program prior to award of the contract. These costs were not allowable.

Credits and refunds -- IndEx received \$972 in credits and refunds against expenditures charged to Contract 1 but did not reduce reported expenditures by this amount. These costs are not allowable.

OMB Circular A-122 Attachment B, section 5 (a), Applicable credits, states:

The term applicable credits refers to those receipts, or reduction of expenditures which operate to offset or reduce expense items that are allocable to awards as direct or indirect costs. Typical examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing or received by the organization relate to allowable cost, they shall be credited to the Federal Government either as a cost reduction or cash refund, as appropriate.

Duplicate payments -- IndEx received reimbursements under Contract 1 for expenses they charged twice to the program.

IndEx initially charged the WtW program \$701 -- based on a cost allocation -- for the expenses, then charged the program \$942 -- based on a different cost allocation -- for the same expense. (See attachment 3.)

Because IndEx had no appropriate allocation plan, the amount allocable and allowable to Contract 1 is unknown. However, in these cases, IndEx charged the WtW contract \$1,643 (\$701 + \$942), or 119 percent, of a singled billed item of \$1,376.

OMB Circular No. A-122 Attachment A (3.) Reasonable costs, provides:

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. . . . In determining the reasonableness of a given cost, consideration shall be given to: a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award. b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award.

Late payment fees -- IndEx charged \$120 of late fees under Contract 1 and \$494 under Contract 2 to the WtW program. (See attachments 4 and 5.)

OMB Circular No. A-122 Attachment A (3.) Reasonable costs, provides:

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. . . . In determining the reasonableness of a given cost, consideration shall be given to: a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award. b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award.

Late payment fees do not constitute necessary and reasonable costs.

Charges for non-WtW participants – IndEx charged a total of \$37,772 to its WtW contracts for individuals who were not WtW participants.

- \$116 in testing fees for individuals who were not WtW participants.
 - \$80 under Contract 1 for GED testing.
 - \$36 under Contract 2 for drug testing.
- \$37,656 as wages and fringe benefits to both contracts for individuals who were not WtW participants.
 - Contract 1 -- \$17,599 as participant wages and \$4,224 as fringe benefits for 11 individuals although only 1 of these individuals was ever a WtW participant and she was not enrolled under Contract 1.
 - Contract 2 -- \$12,867 as participant wages and \$2,966 as fringe benefits for seven individuals who were not WtW participants.

According to an IndEx official, only staff received fringe benefits. Consequently, even if these individuals had been participants, they would not have received fringe benefits.

20 CFR Part 645.214 states:

The operating entity . . . is accountable for ensuring that WtW funds are spent on individuals who are eligible for WtW projects.

Excess rent -- IndEx charged \$896, or 80 percent of \$1,120, to the WtW program under Contract 1 for **June 1999** rent. The documentation used to support the \$1,120 rent charge was an invoice prepared by IndEx, not the lessor.

IndEx then charged Contract 2 \$925, or 25 percent of \$3,700, for **July 1999** rent and an equal amount **for August 1999** rent. No invoice or other documentation (i.e., lease or rental agreement) was available to support these two \$3,700 monthly rental charges. In addition, IndEx voided both \$3,700 checks used to support these questionable rent payments under Contract 2. IndEx neither provided evidence that they reissued the June or July checks nor credited the \$1,850 rent charges to Contract 2.

Repaid expenses -- IndEx charged \$36,226 to the WtW program under Contract 2 for technical assistance provided by THA based on THA invoice amounts, even though IndEx only paid THA \$30,984. IndEx never paid THA the \$5,242 due on the THA's last three invoices. Regardless, the entire \$36,226 charge is unallowable because THA repaid IndEx the entire \$30,984. Consequently, IndEx did not incur this \$36,226 expense. Yet, IndEx did not credit this amount to the WtW program and no evidence exists to support IndEx used the funds to benefit the WtW program.

Costs directly and indirectly charged to the program – Under Contract 1, IndEx indirectly allocated \$18,275 and directly allocated \$3,976 for fringe benefits. Under Contract 2, IndEx likewise indirectly allocated \$45,279 and directly allocated \$522.

Insurance on leased building -- On September 23, 1999, IndEx increased its Hartford Insurance policy premiums by \$5,495 to insure the **leased** building for \$2 million. IndEx increased the amounts charged to WtW after the policy increase. The OIG cannot determine why IndEx insured a leased building. The following chart shows the insurance amounts IndEx charged to **WtW before and after the policy increase**:

Month Charged	Charged to WtW Before	Charged to WtW After
August 1999	\$ 28.23	
September 1999	197.60	
November 1999		\$ 1,790.14
December 1999		1,272.60
January 2000		1,605.77
February 2000		1,436.74
May 2000		2,084.58
June 2000		694.86
July 2000		694.86
August 2000		1,441.62
September 2000		324.09
Total	\$ 225.83	\$ 11,345.26

Since IndEx included personal property in the insurance premiums, we cannot determine the amount attributable to the building. However, charges to WtW increased substantially after IndEx insured the building.

C. Inadequate documentation.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment A, Paragraph A. 2.g, provides: *To be allowable under an award, costs must . . . Be*

adequately documented. IndEx charged the following costs to its WtW contracts without adequate documentation to justify reimbursements.

Employee Reimbursements – IndEx charged WtW \$1,341 for employee reimbursement expenses without documentation to support the costs or how the costs benefited the WtW program.

- \$184 under Contract 1 to an employee in April 1999. The documents used to support the expense said “IndEx building repair – supply” but no record of the repair was provided.
- \$222 under Contract 1 to a Tulsa Chamber of Commerce employee in May 1999. The documents used for support showed the expense was for travel to a Youth Build grant certification event. Youth Build is not a WtW program.
- \$338 to one employee for various undocumented reimbursements:
 - \$46 in March 1999 for mileage, but no documentation was attached to the receipt to show the destination of the travel or how the travel benefited the WtW program.
 - \$187 for gas receipts where he claimed to transport individuals between Okmulgee -- where he lived-- and Tulsa. No WtW participants resided in Okmulgee, and IndEx kept no records to identify the participants transported in the van driven by the employee. The OIG cannot determine if those transported were WtW participants or if any participants were, in fact, transported.
 - \$105 in August and September 1999 for gas; however, there were no participants in the program during these months.
- In April 1999, IndEx charged the WtW program \$188 under Contract 2 for their President’s salary. IndEx’s President was an employee of the Tulsa Chamber of Commerce. In addition IndEx charged the WtW program \$208 for the salary of another individual who was employed by the Tulsa Chamber of Commerce. IndEx did not provide documents that showed the WtW program benefited from these individuals.
- In October 1999 and March 2000, IndEx charged WtW \$42 and \$159, respectively, for their President’s wireless phone. IndEx did not document how the WtW program benefited from these expenses.

Rental Reimbursements – IndEx charged the WtW program \$10,780 under Contract 1 for payments to Keystone Aviation for rent with no rental contract. IndEx created the only documentation to support the rent payments. Also, IndEx charged the WtW program \$1,850 under Contract 2 for payments to Keystone Aviation, yet both checks to

support the rental charges were voided with no evidence that they were reissued or that the costs were credited to the program.

Vendor Expenses -- IndEx charged the WtW program \$1,733 under Contract 1 for expenses incurred with Sarge's Manufacturing and did not adequately document the expenses to justify reimbursement.

Sarge's Manufacturing was one of the companies that contracted with IndEx for services. According to Sarge's owner -- the wife of an IndEx employee -- the company paid IndEx to make welding helmets.

However, IndEx charged WtW for payments made to Sarge's Manufacturing, supposedly for "Security" which was noted on the invoices submitted by Sarge's for payment. However, IndEx had no written contract for security services.

Sarge's initial invoice for payment showed \$50 per month in November and December 1998. Then, Sarge's started submitting payment invoices for \$550 per month in February 1999. The OIG cannot determine the actual purpose of the payments or why the rates drastically increased.

General Expenses -- IndEx reported general type expenses of \$4,879 for 27 different transactions for which there was no documentation to support the payments, including no cancelled checks for 20 of the 27 transactions. (See attachment 6.)

- Under Contract 1, IndEx reported expenses of \$1,236 for five transactions where the only documentation was a check stub with a vendor name.
- Under Contract 2, IndEx reported expenses of \$3,643 for 22 transactions for which 20 transactions had no cancelled check or other documents to justify the charges and 2 other transactions with cancelled checks but no other documents to justify the charges.

Participant Supportive Service Expenses -- In March 1999 and April 1999, IndEx charged Contract 1 expenses totaling \$200 for GED testing but did not identify who took the GED. Therefore, the OIG could not determine if the expenses were for valid WtW participants.

Voided or Missing Checks -- IndEx charged the WtW program for \$5,040 of expenses with no evidence to support that the expenses were paid.

- IndEx's April 1999 documents (Contract 1) included several receipts that totaled \$554. IndEx wrote check number 4043 to its Executive Director as reimbursement for those expenses and charged (allocated) \$406 of the expenses to the WtW program. IndEx later voided the check written to the Executive Director and provided no documents to support that it incurred these expenses or that these

expenses benefited the WtW program. IndEx also did not credit the charges against its WtW contract when the check was voided.

- IndEx charged the WtW program \$6 for a portion of the cost on a Home Depot receipt dated February 24, 1999, but there was no evidence, such as a canceled check, to show that IndEx paid for the expense.
- IndEx charged Contract 2 for \$4,628 of expenses then voided the checks that it submitted as proof of payment for these expenses. (See attachment 7.)

Transportation Expenses – IndEx charged the WtW program \$12,181 for transportation expenses and deducted \$315 from WtW and non-WtW participants’ salaries for transportation expenses. Also see **Employee Reimbursements** above for additional transportation expenses.

- IndEx charged the WtW program \$3,276 under Contract 1 for transportation expenses but did not have a list of who received the transportation. Also, as shown in the table below, no, or few, participants were in the program at the time these expenses were incurred.

Month Expense Billed	Month Expense Incurred	Participants In Program	Total Bill Amount	Percentage Charged to WtW	Amount Charged to WtW
Feb 1999	Nov 1998	No contract	\$ 52.50	80%	\$ 42.00
	Dec 1998	0	1034.04	80%	827.23
May 1999	Dec 1998	0	3.95	100%	3.95
	Jan 1999	0	815.48	100%	815.48
	Feb 1999	9	237.94	100%	237.94
	Mar 1999	6	1126.30	100%	1126.30
	Mar 1999	6	223.02	100%	223.02
Total Transportation Costs					\$3,275.92

- In addition to the above expenses, IndEx charged WtW \$344.60 for bus passes and tokens bought from the Tulsa Transit Authority but did not document who received the passes. The bus passes cost \$6 each and the OIG cannot determine why the amount charged to WtW does not allow for an equal number of bus passes; i.e., \$344.60 pays for 57.43 bus passes. IndEx deducted \$21 in \$3 and \$6 increments for bus passes from non-WtW participants it paid with WtW funds. The OIG could not determine why IndEx deducted amounts for bus passes from these individuals’ salaries when they charged the WtW program for transportation.
- IndEx charged the WtW program \$8,560 under Contract 2 for transportation but did not document who received the transportation. Of these costs, IndEx charged its WtW contracts \$3,334 each month in June 2000 and July 2000, a total of \$6,668, without support. What makes these June and July charges so suspicious and certainly calls into question their allocability and allowability is:

- Only one WtW participant (for 5 days of enrollment) was served in June 2000, and no WtW participants were enrolled in July 2000.
- The WtW June payment of \$3,334 shows the payment is for invoice 1692. The backup documentation to support this payment lists several invoices, including invoice 1692 for \$3,777.55. The WtW July payment of \$3,334 shows the payment is for invoice MTT2215. The support to back up the July payment was a **copy** of the same document used to back up the June payment; no invoice MTT2215 is listed on the support.
- In addition to charging the WtW program for inadequately documented transportation costs, IndEx deducted \$246 for transportation expenses from WtW participants' salaries and \$48 from non-WtW participants' salaries. IndEx paid the WtW participants only minimum wage (\$5.15 per hour). Therefore, the OIG cannot determine why IndEx deducted transportation expenses from their salaries. Also, the OIG cannot determine why IndEx deducted transportation fees from participants' salaries when it charged the WtW program for transportation expenses.

Salary Expenses – IndEx charged its WtW contracts \$274,656 for employees' salaries and fringe benefits as follows without documented time and attendance records:

- Contract 1-- salaries, \$58,552; fringe benefits \$18,275
- Contract 2-- salaries, \$152,548; fringe benefits, \$45,279

OMB Circular A-122 Attachment B, paragraph 7 states:

*m. Support of salaries and wages.
 (1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports . . . except when a substitute system has been approved by the cognizant agency.*

As a result of not having documented time and attendance records or an approved substitute system, the OIG could not determine WtW's allowable share of the expenses.

Program Income -- IndEx earned \$38,620 of program income under Contract 1 and \$111,221 under Contract 2 but called it matching funds. IndEx had several contracts in place to assemble and package products for vendors such as Whirlpool and Hilti and used WtW participants as well as non-WtW participants to provide the labor under these contracts. The suppliers paid IndEx for each item produced. Many (41 percent) WtW participants were not paid for their labor, instead, they continued receiving their TANF benefits. Furthermore, some non-WtW participants were paid with WtW funds. IndEx

considered the labor as work experience and called the income generated from the production matching funds.

29 CFR Part 95.2, Definitions, provides:

(j) Costs sharing or matching means that portion of project or program costs not borne by DOL.

(bb) Program income means gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award. . . . Program income includes, but is not limited to, income from fees for services performed. . . .

29 CFR Part 95.24 provides:

(a) . . . program income earned during the project period shall be retained by the recipient and added to funds committed to the project by DOL and the recipient, and used to further eligible project or program objectives.

We cannot determine the total amount of program income actually earned by IndEx because documents used to support the income were inadequate. We requested copies of the contracts between IndEx and its vendors but IndEx never provided the contracts. We found no records showing that IndEx added the income to its WtW funds or that the income was used to further eligible program objectives.

Of the Governor's WtW Discretionary OESC granted to THA, THA passed all but \$19,500 down to IndEx. THA retained the \$19,500 to oversee IndEx's WtW program under Contract 1. Oversight included, among other things, reviewing and approving vouchers for payment. Obviously, THA provided poor oversight of IndEx's WtW program as evidenced by IndEx's mismanagement of their program.

29 CFR Part 95.47 states:

A system for contract administration shall be maintained to ensure contractor conformance with the terms, conditions and specifications of the contract and to ensure adequate and timely follow up of all purchases. Recipients shall evaluate contractor performance and document, as appropriate, whether contractors have met the terms, conditions and specifications of the contract.

As a result of IndEx's lack of experience and THA's poor oversight, THA reimbursed IndEx for costs that were not allowable, allocable, reasonable, or adequately documented.

We question the \$561,649 that IndEx and THA received from WtW because IndEx mismanaged its WtW program and THA provided poor oversight that attributed to IndEx's mismanagement. Also, we question the funds because IndEx provided inadequate training that resulted in dismal outcomes and because THA did not properly procure IndEx's services. (See attachment 8 for a schedule of questioned costs.)

THA's Response to Our Draft Report and OIG's Conclusions:

THA disagrees that it entered into a subcontract agreement with an entity unable to handle the administrative responsibility of a federal grant. THA stated that it trusted the financial management abilities of the IndEx organization because of its business affiliation with the Tulsa Chamber of Commerce. Furthermore, THA disagreed that it provided poor oversight to IndEx.

THA acknowledges that IndEx made many mistakes in accounting for various expenditures; however, THA considers IndEx's financial management systems were acceptable. THA stated that IndEx made many accounting errors in the simple "accounting" for various expenditures. THA also stated that some errors were made in monitoring of monthly invoices but it took immediate steps to improve its monitoring of the IndEx program. In our opinion, THA's agreement to many issues in this finding does not support its statements.

For example, IndEx agreed that precontract costs, duplicate payments, late payment fees, excess rent, payments to non-WtW participants, etc., were charged to WtW. In our opinion, these are not accounting errors in the simple "accounting" for expenditures. If THA was providing adequate oversight, why were these unallowable costs approved and why was THA unaware of checks voided by IndEx? Also, if IndEx's financial management system was adequate, why did IndEx charge unallowable costs to the WtW program and why did it void checks after THA reimbursed it for payment of the expenses?

THA stated that in January 2001, THA's accounting staff assisted IndEx in closing out their calendar year 2000 financials. It was at that time that THA became aware of weaknesses in the IndEx financial system and software. THA then recommended that IndEx purchase and utilize software called "Peachtree 2000" which they implemented in February 2001. This THA assistance in January 2001 was after IndEx had spent all WtW funds in Contracts 1 and 2.

THA disagreed with some of the specific issues in this finding. We reviewed THA's response but found no justification to change the finding or recommendations.

THA's entire response is included in this report at Appendix I.

CONCLUSION AND RECOMMENDATIONS

Conclusion

THA selected IndEx as a service provider without following required procurement procedures and provided poor oversight of its contracts with IndEx which attributed to IndEx's waste, abuse, and mismanagement of WtW funds. IndEx provided questionable training through its work experience program that resulted in dismal performance outcomes. IndEx failed to come close to meeting its contract performance goals and it mismanaged, wasted, and abused WtW funds. As a result of these issues, the OIG questions the entire \$561,649 IndEx charged to the WtW program.

Recommendations:

We recommend the Assistant Secretary for Employment and Training:

- Disallow questionable costs of \$561,649 for IndEx's dismal performance outcomes and its mismanagement, waste, and abuse of WtW funds and for THA's procurement of services from IndEx without competition.

Furthermore, we recommend the Assistant Secretary direct the State to ensure:

- Contractors and subcontractors adhere to Federal and State regulations in procuring services from providers.
- Service providers use an appropriate method of allocating costs.
- Service providers maintain adequate documentation to support allocation of costs to WtW programs.
- Service providers maintain an adequate time distribution system that reflects the actual activity of employees.
- Service providers properly account for program income.

PARTICIPANT SYNOPSES

13A

A 43-year-old female with a GED, entered the IndEx program in March 1999 as an IndEx participant funded under the THA (Contract 1) WtW grant. The Department of Human Services (DHS) referred her for Adult Basic Education (ABE) classes even though she had a GED.

Although DHS referred this participant to IndEx for basic skills only, she was not enrolled in basic skills classes. Instead IndEx assigned her to a *work experience* activity performing unskilled assembly work at a minimal wage. She also attended computer orientation classes for a short period of time.

In June 1999, this participant was reported as entered unsubsidized employment with a firm under contract with IndEx. However, she continued to work full time at a minimal wage for IndEx performing the same type unskilled assembly work she had been performing under the WtW grant.

In January 2000, IndEx enrolled this same participant under the OJA (Contract 2) WtW grant and assigned her to a *work experience* activity performing unskilled assembly work at \$7 per hour. She continued working full time for IndEx under this WtW grant through July 2000 just as she had been doing since June 1999 when she was reported as placed into unsubsidized employment under the THA WtW grant. At this point, she quit or was terminated from the IndEx OJA WtW grant and departed IndEx.

07B

A 24-year-old female with a GED began the IndEx program in March 1999 performing unskilled assembly type work for IndEx at a minimum hourly wage. She worked through the third quarter of 1999 working approximately 423 hours prior to leaving.

On February 15, 2000, the participant returned to IndEx picking up where she left off. She continued working a minimum hourly wage at IndEx until June 19, 2000, before going out on pregnancy leave. During her second stint at IndEx she added another 524 hours of additional assembly type work experience to her credit.

The participant then returned once more to IndEx during the third quarter of the year 2000 putting in an additional 84 hours at a minimum wage. On October 6, 2000,

ATTACHMENT 1

after more than 1000 hours of this type work experience, IndEx determined her eligible for the WtW grant and she became a WtW participant enrolled in a *work experience* training activity performing unskilled assembly type labor for IndEx at \$5.40 per hour under the WtW grant. This was the same unskilled assembly work she had been performing on and off at IndEx since March 1999.

In January 2001 the participant's salary was increased to \$7 per hour, and she continued working at IndEx through part of the second quarter of 2001.

21B

A 23-year-old female high school graduate with an Associates degree from a local Community College entered the IndEx program in October 2000 as an IndEx participant funded by the WtW grant. She was referred to IndEx by THA where she had procured her housing.

Even though this participant had 2 years of college and scored very high on the TABE (grade equivalence) test, she was put in a GED class for 2 weeks with no class instruction, only some basic skill books to read. She also attended computer classes under the same set of circumstances even though she was already computer literate. Finally, she worked 4 hours a day in a *work experience* activity performing unskilled assembly work at \$5.15 per hour despite the fact she had at least 6 months prior work experience with a telemarketing firm and other work experience as a home health care aide, waitress, etc.

This participant was interviewed. She indicated she learned nothing at IndEx and could not imagine how anyone else could either. Additionally, she did not know of anyone participating in the IndEx program that was **placed** into unsubsidized employment even though the IndEx officials would always promise the participants a job but would never help anyone find one.

Fed up, she began looking for a job on her own, found a full-time clerical job with a nonprofit organization in February 2001 earning \$8 per hour, and notified IndEx she was quitting the program.

26B

A 19-year-old female school dropout was determined eligible for the WtW grant in December 2000. Although she was pregnant, making less than poverty wages, she was not a custodial parent at the time.

ATTACHMENT 1

The participant was enrolled under the WtW grant in a *work experience* program at IndEx performing part-time unskilled assembly work at \$5.15 per hour until going out on maternity leave in March 2001. She returned to IndEx in early April 2001 after delivering a baby boy and dropped out of the program.

32B

A 40-year-old female high school graduate entered the IndEx program on July 17, 1997. She was an AFDC recipient referred to IndEx as part of the Job Opportunities and Basic Skills Training Programs. She was assigned to a *work experience* program conducted by IndEx consisting of unskilled assembly type work.

In August 1997 the participant was promoted to a Trainer in charge of other IndEx *work experience* trainees. By February 1998 she was promoted to Floor Supervisor in charge of trainers and trainees. She performed this function continuously for IndEx through the third quarter of the year 2000 working approximately 32 hours a week at \$5.40 per hour.

In the Fall of 2000 THA referred the participant for enrollment under the WtW training grant as a participant. She was determined eligible for the WtW grant on October 6, 2000 and was enrolled under the WtW grant in a *work experience* activity at IndEx performing unskilled assembly type work at \$5.40 per hour. This is the same type of activity she had been continuously performing for IndEx since 1997.

In February 2001, the participant was terminated from the IndEx WtW grant and reported as entering unsubsidized employment with a manufacturing firm at \$6.50 per hour.

ATTACHMENT 2

PRE-CONTRACT COSTS FOR CONTRACT 1

Invoice Payee	Month Expense Incurred	Month Expense Billed	Total Bill Amount	Percentage Charged to WtW	Amount Charged to WtW
Sand Springs Home	Nov	Dec/Jan	\$1,713.04	46%	\$ 788.00
City of Tulsa	Nov	Dec/Jan	235.43	35%	82.00
Logix Communications	Nov	Dec/Jan	325.57	50%	160.00
Sarge's Manufacturing	Nov	Dec/Jan	50.00	50%	25.00
Oklahoma Natural Gas	Nov/Dec	Dec/Jan	148.70	50%	74.35
Oklahoma Natural Gas	Nov/Dec	Dec/Jan	290.85	50%	145.43
Indian Lock & Safe	Nov	Dec/Jan	54.50	50%	27.00
Hartford	Nov/Dec	Dec/Jan	281.49	70%	197.04
AmeriGas	Nov/Dec	Dec/Jan	133.71	50%	66.00
Tulsa County Treasurer	Yr. 1998	Dec/Jan	198.00	50%	100.00
Xerox Corp	Oct	Feb	352.89	53%	187.03
Indian Lock & Safe	Nov	Feb	54.50	53%	28.89
Oklahoma Natural Gas	Nov/Dec	Feb	148.70	53%	78.81
AmeriGas	Dec	Feb	38.82	53%	20.57
Tulsa Transit	Nov	Feb	52.50	80%	42.00
Total Pre-Contract Expenses					\$2,022.12

ATTACHMENT 3

DUPLICATE PAYMENTS FOR CONTRACT 1

Payee	Initial Amount Billed	Percentage Charged To WtW	Initial Charge To WtW	Initial Month Charged	Duplicate Amount Billed	Percentage Charged To WtW	Duplicate Charge To WtW	Duplicate Month Charged
American Waste	\$ 1.81	53%	\$ 0.96	Feb				
American Waste					\$ 1.81	53%	\$ 0.96	Mar
Indian Lock & Safe	54.50	50%	27.00	Dec/Jan				
Indian Lock & Safe					54.50	53%	28.89	Feb
City of Tulsa	276.71	50%	138.00	Dec/Jan				
City of Tulsa					276.71	53%	146.66	Feb
Oklahoma Natural Gas (ONG)	148.70	50%	74.35	Dec/Jan				
ONG					148.70	53%	78.81	Feb
ONG	441.33	50%	220.67	Dec/Jan				
ONG					441.33	53%	233.90	Feb
AmeriGas	307.60	53%	163.03	Feb				
AmeriGas					307.60	100%	307.60	Apr
AmeriGas	145.59	53%	77.16	Mar				
AmeriGas					145.59	100%	145.59	Apr
Totals	\$1,376.24		\$ 701.17		\$1,376.24		\$ 942.41	

ATTACHMENT 4

LATE PAYMENT FEES FOR CONTRACT 1

Month WtW Charged	Invoice Payee	Total Late Fees	Percentage Charged	Late Fees Charged
Apr 99	American Waste Control	\$ 0.03	100%	\$ 0.03
Mar 99	American Waste Control	0.03	53%	0.02
Feb 99	Logix Communications	4.88	53%	2.59
Mar 99	Logix Communications	5.13	53%	2.72
Apr 99	Logix Communications	10.23	100%	10.23
May 99	Logix Communications	5.59	100%	5.59
Dec 98/Jan99	Oklahoma Natural Gas	2.23	50%	1.12
Dec 98/Jan 99	Oklahoma Natural Gas	4.36	50%	2.18
Feb 99	Oklahoma Natural Gas	8.85	53%	4.69
Mar 99	Oklahoma Natural Gas	6.81	53%	3.61
Apr 99	Oklahoma Natural Gas	5.56	100%	5.56
May 99	Oklahoma Natural Gas	9.81	100%	9.81
Dec 98/Jan 99	Sand Springs Home	155.75	23%	71.65
	Totals	\$219.26		\$119.80

ATTACHMENT 5

LATE PAYMENT FEES FOR CONTRACT 2

Invoice Month	Description	Total Late Fee	Percent to WtW	Late Fee to WtW
Jul-99	American Waste	\$1.75	20%	\$0.35
Jul-99	Logix Comm.	5.33	64%	3.41
Aug-99	PSO	10.18	88%	8.96
Sep-99	American Waste	1.78	50%	0.89
Sep-99	PSO	20.11	30%	6.03
Nov-99	American Waste	4.95	95%	4.70
Dec-99	American Waste	4.95	93%	4.60
Dec-99	PSO	23.90	89%	21.27
Jan-00	American Waste	4.95	93%	4.60
Jan-00	PSO	49.28	88%	43.37
Feb-00	ONG	61.99	93%	57.65
Feb-00	PSO	26.21	80%	20.97
Mar-00	American Waste	4.13	93%	3.84
Mar-00	Dolphin Capital	50.00	58%	29.00
Mar-00	ONG	45.97	95%	43.67
Apr-00	American Waste	3.68	79%	2.91
Apr-00	Dolphin Capital	25.00	42%	10.50
Apr-00	ONG	89.13	51%	45.46
Apr-00	PSO	24.95	54%	13.47
May-00	American Waste	7.35	76%	5.59
May-00	Dolphin Capital	25.00	42%	10.50
May-00	ONG	62.80	42%	26.38
May-00	PSO	25.34	54%	13.68
Jun-00	American Waste	14.70	65%	9.56
Jun-00	Dolphin Capital	25.00	42%	10.50
Jun-00	ONG	27.47	36%	9.89
Jun-00	PSO	25.24	55%	13.88
Jul-00	American Waste	14.98	51%	7.64
Aug-00	ONG	90.00	45%	40.50
Sep-00	ONG	91.65	16%	14.66
Oct-00	American Waste	3.49	10%	0.35
Oct-00	PSO	37.35	15%	5.60
	Total	<u>\$908.61</u>		<u>\$494.38</u>

INADEQUATE DOCUMENTATION FOR CONTRACT 1

Invoice Month	Description	Check No.	Check Amount	Charged to WtW
Feb-99	Quality K Tire	3926	\$ 437.86	\$ 218.93
Apr-99	Humana	4018	1,739.62	869.81
Apr-99	Tulsa Transit	4021,4027	120.00	90.00
May-99	U.S. Postmaster	4060	33.00	16.50
May-99	IndEx Employee	4046	75.82	40.74
	Total		\$2,406.30	\$1,235.98

INADEQUATE DOCUMENTATION FOR CONTRACT 2

Invoice Month	Description	Check No.	Check Amount	Charged to WtW
Nov-99	Southwestern Bell	No	No	\$ 1,703.86
Nov-99	Southwestern Bell Internet	4340	\$ 55.92	53.12
Dec-99	Tom Gorman Co.	No	No	16.96
Jan-00	Edit Suite	No	No	23.75
Jan-00	Ellis, Duane	No	No	202.50
Feb-00	First Light of Tulsa	No	No	39.12
Mar-00	Rent Adj overpaid	No	No	75.00
Apr-00	Rapidforms	No	No	48.43
May-00	Czech, Lisa (Supplies)	No	No	26.49
May-00	THA Residence Bonuses	No	No	12.50
Jun-00	THA Residence Bonuses	No	No	12.50
Jun-00	Townsend	4673	441.05	45.97
Jul-00	Hartford/ Insurance	No	No	694.86
Aug-00	City of Tulsa	No	No	320.86
Sep-00	Supplies	No	No	8.95
Sep-00	Murphy Electric Co.	No	No	55.59
Sep-00	Tulsa Auto Collection	No	No	9.31
Sep-00	Kinko's	No	No	49.15
Nov-00	American Waste	No	No	121.80
Nov-00	AT&T	No	No	2.43
Nov-00	Ayres, Roger (Supplies)	No	No	84.15
Nov-00	Southwestern Bell Telephone	No	No	36.01
	Total			<u>\$3,643.31</u>

ATTACHMENT 7

VOIDED OR MISSING CHECKS FOR CONTRACT 2

Invoice	Description	Check No.	Check Amount	Charged to WtW
Jun-99	Rent	4133	\$3,700.00	\$ 925.00
Jul-99	Rent	4180	3,700.00	925.00
Jul-99	Logix Communications	4155	729.27	218.78
Aug-99	Logix Communications	4210	380.66	114.20
Aug-99	Xerox Corporation	4205	101.44	24.33
Aug-99	Xerox Corporation	4214	97.30	35.50
Sep-99	Southwestern Bell Telephone	4249	2,111.88	1,478.32
Oct-99	Southwestern Bell Telephone	4290	846.20	507.71
Nov-99	Rapidforms	4334	52.88	50.24
Dec-99	Southwestern Bell Telephone	4382	27.76	24.98
Oct-00	ONG	4936	144.69	5.25
Oct-00	PSO	4937	2,159.83	318.37
	Total			<u>\$4,627.68</u>

SCHEDULE OF QUESTIONED COSTS

Contract 1	\$150,000 ⁵
Contract 2	372,741
Grant between THA and OESC	<u>38,908⁶</u>
Total	\$561,649

⁵ Of the \$150,000, IndEx received \$130,500 and THA kept \$19,500 to oversee IndEx's WtW program. We are questioning THA's portion in addition to IndEx's portion because THA's poor oversight attributed to the waste and mismanagement of WtW funds received by IndEx.

⁶ THA received a \$600,000 grant from OESC and used part of the funds for IndEx's work experience program under Contract 2. We are questioning these funds because of IndEx's poor performance and mismanagement of funds.

RESPONSES TO DRAFT AUDIT REPORT

Tulsa Housing Authority (Page 42)

Oklahoma Employment Security Commission (Page 94)

Note: The Tulsa Housing Authority's (THA) response to the draft audit report was voluminous. We have included the THA's narrative response in its entirety in this report. Attachments to the THA's response are in the Dallas Regional Audit Office and are available for review upon request.



Via United States
Postal Service
Express Mail

March 1, 2002

Mr. John F. Riggs
U.S. Department of Labor
Regional Inspector General for Audit
525 Griffin St. Room 415
Dallas, Texas 75202

Dear Mr. Riggs:

Enclosed are the responses of the Housing Authority of the City of Tulsa for the following audit:

Financial – Related and Performance Audit of the
Industrial Exchange, Inc.,
Governor's 15 Percent Welfare-to-Work
Discretionary Funds Program
December 16, 1998, through June 30, 2001

If you have any questions, please contact me at 918-581-5777.

Respectfully,

A handwritten signature in cursive script that reads "Roy E. Hancock".

Roy E. Hancock
Executive Director

REH:bd

Enclosures

Roy E. Hancock
Executive Director

Ruth Nelson
Chairperson

Frederic Dorsett
Vice Chairman

Bill Thomas

Rubén Gant

Annie Mae Barnes



Housing Authority of the City of Tulsa

Response to

Office of the Inspector General

Draft Report

Submitted March 2002

Housing Authority of the City of Tulsa
**Response to
Office of the Inspector General
Draft Report**

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List of Attachments

- A -** Weddle Affidavit
Letter of Understanding from the Oklahoma Office of Juvenile Affairs
Hancock Affidavit

- B -** Contract between Oklahoma Employment Security Commission and the Tulsa Housing Authority

- C-** Service Agreement between Industrial Exchange, Inc. (IndEx) and the Tulsa Housing Authority
- D-** Oklahoma Employment Security Commission Monitoring Review dated June 30, 2000
- E-** Tulsa Housing Authority response to June 30, 2000 Monitoring Review
- F-** Follow-up response from Oklahoma Employment Security Commission to June 30, 2000 Monitoring Review
- G-** National Recognition of the IndEx Program
- H-** Revised Welfare to Work Program Planning Summaries dated June 24, 1999 and November 13, 2000
- I-** Tulsa Metro Chamber Annual Report 2001
- J-** Local Recognition of the IndEx Program
- K-** Manpower Demonstration Research Corporation report on Tulsa's IndEx Program
- L-** Welfare to Work contract between Tulsa Housing Authority and IndEx
- M-** Notice of Termination of Welfare to Work Contract between Oklahoma Employment Security Commission and Tulsa Housing Authority
- N-** THA Staff E:mails
- O-** Approval of Modification to Welfare to Work grant by Office of Juvenile Affairs dated December 19, 1999 retroactive to September 1, 1999
- P-** Letter from Tulsa Housing Authority Grant Administrator to IndEx Executive Director
- Q-** Memo from IndEx Executive Director to THA Controller
- R-** In-Kind Report from IndEx to Oklahoma Employment Security Commission dated July 16, 2000

EXECUTIVE SUMMARY

The Housing Authority of the City of Tulsa (THA) is a nationally recognized High Performing Housing Authority in accordance with the performance requirements set forth by the U.S. Department of Housing and Urban Development (HUD). THA disagrees with the Auditor's report and many of its findings regarding the Tulsa Housing Authority and Industrial Exchange, Inc. (IndEx). It is apparent from the wording of the draft report the Office of Inspector General (O.I.G.) auditors have chosen to condemn a federally mandated program, Welfare to Work, which is the subject of this report and are attempting to hold THA responsible. The following is a brief summary of our position regarding the issues raised by the Auditor's Report:

Finding #1

Response: IndEx, a nationally acclaimed business model sponsored by the Tulsa Metropolitan Chamber of Commerce, was selected as a "sole source" provider in accordance with established procurement procedures.

Finding #2

Response: Supervision of the IndEx Program by the Tulsa Housing Authority was commensurate with the responsibilities for administering the Program accepted by IndEx and its Board of Directors, which consisted of established, capable, and prominent leaders in the Tulsa business and social service communities.

Finding #3

Response: IndEx met participation goals even though it was subject to stringent contracted and regulatory eligibility requirements, while also striving to place as many participants as possible in employment. If the auditors had considered the amended performance goals, such conclusions reached by the auditors would have been different.

Finding #4

Response: THA appropriately placed trust and confidence in the financial, management, and abilities of the IndEx organization because of its business affiliation with the Tulsa Chamber of Commerce and its Officers and Board.

THA strongly disagrees with the auditor's conclusion that because of "THA's poor oversight of its contract with IndEx attributed to IndEx's waste, abuse and mismanagement of Welfare to Work (WtW) funds." The recommendation that \$561,649 be considered as disallowed questionable costs for IndEx's performance outcomes shows a considerable lack of understanding about the WtW program and in particular the participants of the program who represent the

most disadvantaged and the hardest to employ members of society. The report is in the nature of a political statement about the program, as well as an attempt to sensationalize its own findings.

Tulsa Housing Authority did not competitively select IndEx as a service provider. THA's first notice of the availability of WtW funds came from a telephone conversation with Mr. Wayne Rowley, President of IndEx and the Director of Workforce Development for the Tulsa Chamber of Commerce. Mr. Rowley informed the Executive Director of THA that the Governor desired to send part of his 15% Welfare to Work (WtW) discretionary funds to IndEx. It was also the understanding of THA staff based upon subsequent discussions with the staff of the Oklahoma Employment Security Commission (OESC) and the Office of Juvenile Affairs (OJA) that such funds were to come to IndEx (Attachment A).

Note: No THA employee can positively attest to any employee of OESC or OJA stating as a fact the Governor directed such funds to go to IndEx.

The initial contract (Attachment B) proposed by OESC also included the following wording:

“The IndEx (Industrial Exchange, Inc.) Program is a business-led initiative designed as a vehicle to provide welfare recipients with basic skills, education, and work experience, all with the goal of moving participants into full-time, permanent employment. These goals are consistent with the new Welfare-to-Work grant program. Governor Frank Keating, in utilizing his discretionary portion of the WtW grant program, is interested in replicating this innovative approach in other communities in Oklahoma. As a result, WtW grant funds are being provided for the purpose of replicating the IndEx Program in Tulsa.”

The specific wording of the proposed contract confirmed to THA that such WtW funds were intended to go to IndEx. To “replicate” the program in Tulsa when the program already existed in Tulsa made no sense.

Tulsa Housing Authority did not initiate the contact with OESC nor did we have to “apply” for the WtW funding.

Based upon the aforementioned discussions and the wording of the proposed contract, THA considered the issuance of a subsequent contract to IndEx as a “sole source” contract.

Tulsa Housing Authority also maintains that OESC was aware that THA had not competitively bid the contract (Attachment B) which was subsequently awarded to IndEx. The proposed contract with IndEx, in accordance with Section VII 1.b, of the OESC Contract, was forwarded to Mr. Eddie Foreman, OESC Director of Employment and Training, (Attachment C) on November 20, 1998. Mr. Foreman subsequently gave verbal approval to THA staff. Further proof of OESC approval is evidenced by their reimbursement of monthly invoices.

THA was first informed of a possible violation of procurement procedures in an OESC monitoring report of June 30, 2000 (Attachment D, Finding #3). On July 20, 2000, THA responded to this monitoring report (Attachment E, Finding #3) stating that THA had understood that such funds were to be awarded to IndEx and therefore considered the contract as a “sole source” contract. OESC responded on August 11, 2000 (Attachment F) stating:

“...There appeared to be some confusion as to your organizations role as a grant recipient. This caused a lack of programmatic and fiscal controls to be in place. Although the lack of control led to some serious deficiencies, we found no evidence of any deliberate attempts to misuse the funds during our review. In fact we found your staff and those of your subcontractors making every effort to have a positive impact on the lives of your WtW Participants!”

Therefore, we accept your responses and do not identify any disallowed costs...

Tulsa Housing Authority also strongly disagrees with the auditor's conclusion that "THA's poor oversight of its contracts with IndEx attributed to IndEx's waste, abuse and mismanagement" of WtW funds.

The training program offered by IndEx has been well recognized within the state and has also received much national recognition as well, (Attachment G). THA acknowledges that IndEx did not meet its performance goals that were established in the beginning of the program. This is why such goals were subsequently modified and approved by the OESC in the Revised Program Planning Summary (Attachment H), which apparently were not considered by the auditors. We disagree that not meeting the goals were the result of mismanagement, waste or abuse. THA believes the lack of more positive results lies in the barriers associated with the clientele being served.

Many, if not most individuals, who have participated in the IndEx program, are residents of public housing. THA and IndEx worked with the poorest of Tulsa's poor, reaching out to individuals that struggle daily just to have food to feed their families and a place to call home. Many of our families earn less than \$5,000 per year and are led by minority, female, single heads of household. Unfortunately, many of these women have little formal education, few job skills, and no transportation or childcare. The efforts of IndEx or THA to reach such individuals were tremendous. Individuals recruited for the WtW program administered by IndEx contained many of the aforementioned qualities. THA maintains it was not the training, program, nor THA oversight that resulted in minimal success, it was the individuals targeted for WtW funds, the hardest to serve.

The recommendation to disallow the \$561,649 reflects a lack of understanding of the difficulties in reaching and successfully serving the population for whom WtW funds were intended to help. Furthermore, a repayment of these funds would only result in further economic harm to the poorest of our poor.

THA acknowledges that some mistakes were made in the administration of the program. THA does not now or will we ever agree that “THA’s poor oversight attributed to, or resulted in waste, abuse, and mismanagement.”

BACKGROUND

We believe it is important to understand what IndEx is, what it does, and what the relationship of the Housing Authority of the City of Tulsa is to the program, therefore we present the following as a background.

Industrial Exchange, Inc. (IndEx) was formed as a 501c(3) non-profit in 1992 in Tulsa, by Wayne Rowley, Director of Workforce Development for the Metropolitan Tulsa Chamber of Commerce, a relationship that was maintained by the Chamber until May of 2001. IndEx was specifically designed to execute contract services with Oklahoma firms while providing training, education, work experience, and long-term employment opportunities for the unemployed and economically disadvantaged. IndEx was the answer to more than one problem with the Tulsa labor market.

At the time, three significant events were taking place in Tulsa, making the market ripe for a program like IndEx. First, the Tulsa economy was booming, which began to drive up the cost of skilled and semi-skilled labor in the local area. Secondly, the number of families receiving welfare payments from the Oklahoma Department of Human Services (DHS) was increasing at a rapid rate. Finally, Zebco, Inc., one of Tulsa’s largest employers was planning to close its Tulsa plant and ship the operation overseas, due to the labor shortage and

expense of the local labor pool. The shortage combined with the rising labor cost was driving up the production price of assembly for their fishing rods.

These factors provided the perfect mix for the conception and birth of the IndEx program.

To address the labor issue, the Tulsa Chamber of Commerce approached DHS with a proposal for IndEx to become a Community Work Experience Program (CWEP) site. DHS would promote and encourage participation in the program among their welfare recipients. The wage earned by the participants would be the recipients' welfare grant. Half of the person's time would be spent in the production lines and half in a classroom setting involved in job readiness and educational activities. This was a huge collaboration which required DHS to make several changes in the CWEP program: the rule that no more than three CWEP workers could be assigned a site was changed; the three month limit on placement was eliminated; and participants were required to participate full-time.

Zebco recognized several benefits to the arrangement. First, by contracting with IndEx, to meet production orders, Zebco was able to keep production and other jobs in the community. Second, IndEx was able to offer Zebco competitive piece rates to fill the order, thus reducing their labor costs. Finally, IndEx provided an opportunity for participants to be trained on Zebco's machinery. IndEx hypothesized that this arrangement would create opportunities for participants to roll over into full-time, permanent positions at the Zebco facility doing similar work. With the early success of the venture with Zebco, other local companies contracted with IndEx as well, including Hilti, a manufacturer of construction equipment and supplies; Communication Graphics, a printing company; and Laufen International, a manufacturer of ceramic tile, for which IndEx assembled catalogs, promotional materials, and direct mail materials.

The Tulsa Chamber of Commerce and IndEx established an informal credit system allowing IndEx to cover its start up costs and lease. IndEx then began

applying for and receiving a series of grants from a variety of sources, including local private foundations, corporate giving programs, and a Community Development Block Grant. Additionally, IndEx received a contract award through DHS and the Job Opportunities and Basic Skills Training Program (JOBS) as a CWEP placement. However, most of the operating budget was generated through the piece-rate contracts negotiated with companies providing work to IndEx.

It is clear that the Tulsa community was open to supporting a local initiative such as IndEx. DHS had an endless low cost labor pool, Tulsa Foundations and other funding sources provided substantial donations and grants to support the program, local businesses were open to testing the cost saving measures proposed by IndEx. These factors combined to create the perfect climate for the implementation and early success of this program.

Welfare Reform brought significant impact to the IndEx Program. In years prior to Welfare Reform, an ample supply of labor came through the Program as DHS staff referred clients who needed basic education and job skills training to the program. However, in 1996 Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act. The passage of the Act ended welfare as we knew it, DHS ended the Aid to Families with Dependent Children program (AFDC). A conservative new program was created with an emphasis on moving recipients from Welfare to Work. The new program, Temporary Assistance to Needy Families (TANF) established a limit of two consecutive years and a lifetime limit of five years that an individual could receive welfare benefits. These changes rapidly moved people off the roles and into the workforce.

IndEx stood ready to process the flow and provide basic education and job skills training to many who had never worked.

The IndEx program continued to grow and expand; providing training for Tulsans that many thought were unemployable.

Tulsa Housing Authority and IndEx served a similar client base. Therefore, a natural alliance between the two agencies rapidly developed as both shared the same goals in assisting clients in becoming self-sufficient. THA and IndEx collaborated on several different grant opportunities including the Youthbuild Program through the U.S. Department of Housing and Urban Development (HUD), the Economic Development Self-Sufficiency Program also through HUD, and a United Way Venture Grant. Due to the long standing relationship between the agencies and IndEx's relationship with the Tulsa Chamber of Commerce, THA had no reason to be concerned in 1997 when the Executive Director of THA was contacted by Mr. Wayne Rowley, who was both the President of IndEx and the Director of Workforce Development for the Tulsa Chamber of Commerce, regarding the potential for the two agencies to once again collaborate on a funding opportunity through the State of Oklahoma.

CURRENT STATUS OF PROGRAM

In March 2001, the Tulsa Chamber of Commerce contacted THA and expressed that they no longer had an interest in supporting the IndEx Program and asked if THA would be interested in assuming the leadership role. At that time, the THA Executive Director appointed a team of four senior staff members to determine the feasibility of purchasing the job training program from IndEx. In May 2001, based on THA's belief in the need for a program of its kind to be located in Tulsa, and due to the potential benefits the concept held for THA residents, THA purchased the Job Training Program from IndEx. IndEx no longer exists as a functioning legal entity.

Tulsa Housing Authority is a Public Housing Authority (PHA) federally funded by the U.S. Department of Housing and Urban Development (HUD). The disallowance of these funds will materially and adversely impact the Public Housing program of the City of Tulsa and will only hurt the people we are here to

serve. All THA funds are dedicated to providing housing for the under privileged population of Tulsa.

Tulsa Housing Authority will address and respond to each of the four findings in the following pages.

FINDING 1

THA did not follow procurement procedures in order to select IndEx as a WtW service provider; consequently, THA contracted with an organization not financially solvent or proven successful enough to administer Federal grant funds.

RESPONSE TO FINDING 1

IndEx, a nationally acclaimed business model sponsored by the Tulsa Metropolitan Chamber of Commerce, was selected as a “sole source” provider in accordance with established procurement procedures.

Tulsa Housing Authority (THA) disagrees that procurement procedures were not followed. As previously stated in the Executive Summary, THA agrees we did not competitively procure the services of IndEx. For reasons also previously stated THA considered the award of a contract to IndEx as a “sole source” contract. It was clear to THA that such funds were intended to go to IndEx.

In further support of our position that IndEx was a sole source provider THA references the same report cited by the Auditor; Manpower Demonstration Research Corporation (September, 1997)

“IndEx is not the only education and training provider in Tulsa, although it is unique in its direct ties to the private sector through the Chamber of Commerce...”

“Emerge and Project HIRE are planning to join forces, with Emerge providing part of the GED Preparation for HIRE Students and HIRE providing additional vocational training for Emerge students. While both of these programs are important players in the overall landscape of education and training, IndEx has been able to develop a unique niche for itself. It is the only program with no minimal education requirements for participants and it is the only one to provide both education and real work experience *at the same site.* The programs unique

approach makes it one of the only options for welfare recipients with low educational skills who want work experience and training in light manufacturing.”

THA would also submit that in accordance with the original contract between the Oklahoma Employment Security Commission (OESC) and THA (Attachment B) that Section III.c. states,

“...Governor Keating, in utilizing his discretionary portion of the WtW grant program, is interested in replication of this innovative approach in other communities in Oklahoma. As a result, WtW grant funds are being provided for the purpose of replication of the IndEx Program in Tulsa.”

In response to the Fiscal and Programmatic Monitoring Review Report issued on June 30, 2000 (Attachment D) by OESC. THA responded to Finding No. 3, No procurement was conducted in the selection of a Service Provider. Therefore, the entire contracted amount of \$130,500 with IndEx are questioned costs. THA’s response to Finding No. 3, submitted on July 20, 2000 (Attachment E) stated, “...Because of the wording in the contract between OESC and THA, a sole source contract was executed. No other IndEx entities operate within the Tulsa Service Delivery Area (SDA). Procurement will be conducted before service agreements are established for any future contract amounts.”

Note: The Fiscal and Programmatic Monitoring Review Report of June 30, 2000 was issued after completion of the first contract with OESC and after the second contract with the Oklahoma Juvenile Authority (OJA) and IndEx had already been signed.

It should be further noted the OESC response of August 11, 2000 (Attachment F) stated, “...Therefore, we accept your responses and do not identify any disallowed costs.”

Tulsa Housing Authority is a Public Housing Authority (PHA) and therefore governed by 24 CFR Part 85, Administrative Requirements for Grants and

Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments. Part 85.36 allows PHA's to use "sole source" as a form of a noncompetitive bid. THA complied with this requirement and established Purchasing/Contracting procedures of the Authority.

Tulsa Housing Authority also does not agree with the auditor's finding that, "THA contracted with an organization not financially solvent or proven successful enough to administer Federal Grant funds."

The Auditor's cite two examples which purport to demonstrate "IndEx's inadequate financial position." The first contract with IndEx was signed on December 16, 1998. It is obvious the December, 1998 nor 1999 year ending financial statements were not available at that time as they are now. Delinquent aged accounts payable, by themselves, provide no proof of financial insolvency. Such balances serve at its best only an indicator and if not considered in conjunction with other account balances, such as cash, provide no "warning" of financial insolvency.

The other example represented to be that of financial insolvency is the \$3,150 of insufficient funds charges and overdraft and returned item fees on the bank statements for 9 of 27 months between January 1999 and March 2001. THA entered into its first contract in October 1998. It is clear that if you have the luxury of looking back for 27 months you could state this fact was an indicator of potential financial problems. A retrospective look back from 2001 is not possible in 1998, when the contract began.

Tulsa Housing Authority had no reason to believe, prior to or subsequent to the contracts that IndEx was in financial difficulty or insolvency. IndEx was sponsored by and supported by the Tulsa Chamber of Commerce. Wayne Rowley, the President of IndEx was also the Director of Workforce Development for the Tulsa Chamber of Commerce. The Tulsa Chamber of Commerce

represents most of the many corporations and other businesses in Tulsa, Oklahoma. The Board of Advisors (Attachment I) for the Tulsa Chamber of Commerce reads as a “Who’s Who” of Corporate Executives in Oklahoma. The retired Executive Director of the Tulsa Chamber of Commerce, Clyde Cole, was considered by many as the “Dean” of Chamber Executive Director’s in Oklahoma.

IndEx was sponsored and supported by the Tulsa Chamber of Commerce. The Board of Directors for IndEx included leading corporate and community leaders:

Board Chairman

David Smith, Director of Human Resources,
American Transportation of Oklahoma

Members

Jerry Holder, President, Allegra Printing and Imaging
Phil Miller, Director of Human Resources, Whirlpool
Ken Lackey, President of the University of Oklahoma-Tulsa
Dan Morgan, Gable & Gotwals,
General Counsel to IndEx Inc.
Phil Lakin, Jr, President, Tulsa Community Foundation
Scott Tindal, President & CEO, Hilti
Chip Meade, President, Anchor Paint

In Attachment J are numerous newspaper and magazine articles citing the great work of IndEx and the Tulsa Chamber of Commerce. Based upon all of these facts THA had no reason to believe that IndEx was or would become insolvent.

THA also disagrees with the auditor’s statement that, “IndEx also did not have a record of past success as a service provider.” The auditor’s cite one example, an excerpt from the September 1997 study performed by Manpower Demonstration Research Corporation (Attachment K). We agree with the excerpt as stated, “...no reliable data are available on the rate of job placements or on retention in unsubsidized work, which would provide a measure of IndEx’s overall success.”, however, if you read the entire report THA believes the report reflects a positive view of IndEx.

Tulsa Housing Authority also disagrees with the statement, “In addition, an IndEx official informed the OIG that IndEx did not have experience with Federal Programs before receiving the WtW funds.” This “official” is wrong. THA and IndEx collaborated on two federal grants prior to receiving WtW funds. These grants included Economic Development/Self-Sufficiency in 1997 and YouthBuild in 1998 and 1999. Both are federal grants funded through the U.S. Department of Housing and Urban Development. THA was the grant recipient of the funds. IndEx provided a major role in the administration of the programs.

In summary, THA disagrees with the findings that: 1) THA did not follow procurement procedures in order to select IndEx as a WtW Service Provider. 2) THA selected an insolvent service provider with no record of past performance. 3) WtW participants received training that was of little value that resulted in poor performance. 4) IndEx’s financial management system was inadequate to administer federal grants. 5) The validity of IndEx’s selection as a WtW service provider and also the validity of the training as a result of procurement. In fact, items 3 and 4 of the auditor’s conclusion are not supported by the details provided in Finding 1.

FINDING 2

IndEx spent \$561,649 of the Governor's WtW Discretionary contract funds while providing inadequate training and services to only a few participants resulting in dismal program outcomes.

RESPONSE TO FINDING 2

Supervision of the IndEx Program by the Tulsa Housing Authority was commensurate with the responsibilities for administering the Program accepted by IndEx and its Board of Directors which consisted of established, capable, and prominent leaders in the Tulsa business and social service communities.

IndEx provided the training program and services for which it was contracted; meeting its projected participation goals regardless of cumbersome, confusing and restrictive eligibility requirements for the hardest to serve of welfare recipients.

THA does not agree that IndEx provided inadequate training and services to only a few participants resulting in dismal program outcomes.

By virtue of the segment of the population that is served and the eligibility requirements imposed by the federal government, this task is extremely difficult. Much time and energy was spent in recruiting clients that met the cumbersome and restrictive eligibility requirements.

THA believes the auditor's opinion, "IndEx used the Governor's WtW Discretionary funds to keep the nonprofit solvent rather than to benefit TANF recipients," is without merit. Such an opinion implies an understanding of the "intent" of the officials of IndEx. The number of participants served whether minimal or dismal does not in and of itself support the auditor's opinion. It was unequivocally not the intent or position of Tulsa Housing Authority to spend the WtW funds for the solvency of IndEx.

THA agrees that many participants received no wages and received only their TANF benefits. THA staff was informed by OESC staff that participants had a choice; they could receive

wages or continue with their TANF benefits and thus maintain medical benefits. THA allowed participants to continue with TANF benefits.

THA disagrees with the auditors opinion that work experience described as light manufacturing, packaging, assembly or occasional mail, regardless of educational background or experience results in “little useable skills”.

This opinion cannot be justified. The program’s purpose was **not** to teach an actual job or an actual job skill, but to allow a participant who had little or no exposure to a work environment, to gain “real work” experience in a learning environment. In this environment, participants worked only with their peers; individuals just like them. The real work experience gave participants the opportunity to learn basic values such as:

- Workplace safety for the manufacturing industry.
- How to be on time for work, reliable and the importance of a good attitude.
- Interpersonal skills, self-esteem, communication, teamwork and parenting.
- **Basic financial planning and management practices (personal and small business).**
- How to use information, resources, systems and technology.
- The value of thinking skills and development of personal qualities.
- How to use basic tools, read a tape measure and read blue prints.

The Manpower Demonstration Research Corporation (Attachment K) report cited by the auditor’s further supports this issue in the following statement:

“...by contracting with local companies to perform light manufacturing and packaging work at a central site, also provides them with work experience. This arrangement is designedprovide participants with meaningful work experience as a step toward permanent job placement.”

The IndEx program was developed to teach the skills necessary for entry-level jobs. Participants are more likely than not to be individuals with minimal if no job skills and are considered unemployable.

The IndEx program provided an opportunity for participants to spend half of each day in Adult Basic Education classes working to obtain their General Equivalency Diploma (GED) or improve their educational skills. Additionally, time is also allowed to improve the participant's computer skills in programs of Word, Excel, and Access. During these computer training sessions participants were also taught how to, and were allowed to prepare their resumes.

The second half of each day was working in the light manufacturing and assembly area. The program's purpose was **not** to teach an actual job or an actual job skill, but to allow a participant who had little or no exposure to a work environment, to gain "real work" experience in a learning environment. In this environment, participants worked only with their peers; individuals just like them. The real work experience gave participants the opportunity to learn basic values such as:

- Workplace safety for the manufacturing industry.
- How to be on time for work, reliable and the importance of a good attitude.
- Interpersonal skills, self-esteem, communication, teamwork and parenting.
- **Basic financial planning and management practices (personal and small business).**
- How to use information, resources, systems and technology.
- The value of thinking skills and development of personal qualities.
- How to use basic tools, read a tape measure and read blue prints.

The Manpower Demonstration Research Corporation (Attachment K) report cited by the auditor's states the following:

“New work requirements and time limits have dramatically raised the stakes for quickly employing and securely retaining people in the labor market. In light of the fact that past welfare to work programs have met with varying degrees of success and given the magnitude of the current challenge, new approaches are needed.

Although a national welfare to work initiative has been launched to mobilize the private sector to hire and train welfare recipients, questions remain about how least to involve the business community in the welfare to work challenge.

One pioneer in this area, the Metropolitan Tulsa Chamber of Commerce, established an innovative welfare to work program in 1992 called Industrial Exchange (IndEx) centered on the promise that welfare reform and economic development are mutually compatible goals, IndEx provides education activities for welfare recipients and, by contracting with local companies to perform light manufacturing and packaging work at a central site, also provides them with work experience. This arrangement is designedprovide participants with meaningful work experience as a step toward permanent job placement.”

Note: As previously expressed in THA’s response to the Executive Summary, many of the IndEx participants represented the most disadvantaged and the hardest to employ members of society.

Unlike other “training” programs, the IndEx program had no minimum education requirements. Any participant who had the desire to try was allowed to enroll.

THA agrees that of the 59 individuals, 18 were high school graduates or had their GEDs at the time they enrolled, including 2 participants with 2 years of college. It should be noted that of those 18, some had TABE test scores in reading and math under the 5th grade level and as low as the 2nd grade level indicating a

definite barrier to employment and substantiating the benefit of attending the GED classes.

All participants chose to participate in the program after touring the facility, regardless of their educational background or experience, and understood the ½ days of the program. The participants with higher scores did receive benefit from the ½ day schedule and the useable skill of daily structure as required in employment that was missing from many of their lives. They were able to complete their computer training during this time frame also.

Program Outcomes

THA disagrees that IndEx charged the WtW program \$561,649 for the period December 16, 1998, to June 30, 2001; \$38,908 of incurred costs were approved by OESC to be paid by THA from the third grant of WtW funds of \$600,000. These costs included the salary of THA's WtW coordinator and wages for the participants. There was no contract for services with IndEx for the expenditure of the \$38,908. These were costs expended directly by THA.

Numerous participants dropped from the program, which is further evidence of the population that the WtW funding was set up to serve. Once again the Welfare to Work Program (WtW) represents an effort to move many of the hardest to employ welfare recipients into employment and economic self-sufficiency. It should not be a surprise to anyone for the drop out rate to be high.

THA believes that all 59 individuals were eligible for the program. OESC has confirmed the eligibility of all participants.

THA disagrees that any participants were expelled from the program. Participants were dismissed from the program due to non-attendance issues, fighting, and failure to follow facility rules. All participants could have requested re-entry into the program. Again, it

should be noted that the WtW program represents an effort to move the hardest to employ welfare recipients into employment and economic self-sufficiency. IndEx only dismissed participants from the program for issues that would affect their ability to locate and retain employment.

THA records indicate that only 7 participants obtained employment as a benefit of direct placement services offered by IndEx. However, file documentation indicates that at least 6 other participants used the skills and information obtained at IndEx to locate employment on their own.

THA agrees that of the 59 individuals 24 were enrolled between December 1998 and September 1999. These dates are the contract dates of the THA/IndEx contract.

The OIG Report indicates that 3 participants were enrolled between October 1999 and September 2000. THA would like to point out that this period is not reflective of any actual contract period and THA believes that the auditor selected this period, which reflects few participants, in order to further emphasize the negativity of this report.

Furthermore it should be noted that the contract between OJA and THA began in February 1999 and extended through January 2001. During the initial term of this contract only WtW eligible youth referred by the Tulsa County Office of Juvenile Affairs were eligible to be served. After several months of attempting to enroll adjudicated youth through the Tulsa County OJA, all staff involved realized that this was not feasible due to the fact that the youth were not TANF recipients and the youth did not have verification of their parents' TANF and other eligibility criteria. Also, Tulsa County OJA officials did not want to refer the youth for a work training and GED program, they wanted to return their youth to the public school system. OJA dedicated a full time employee to work internally with juvenile affairs with the hope of increasing the participation. Much time and energy was spent in trying to recruit eligible individuals resulting in the use of funds prior to the actual enrollment of the participants. THA staff spoke with OJA staff and received approval to use grant funds during the recruitment efforts.

Effective September 1999 the contract was modified to include serving youth and adults that met the WtW requirements. The contract was additionally modified to include referrals from any agency or organization that has knowledge of or is working with juveniles or adults that meet WtW eligibility criteria rather than solely relying upon the referrals of Tulsa County OJA.

The low participation rate during this time period can further be explained by the fact that because all WtW programs were having difficulty meeting their performance goals due to the stringent eligibility requirements. The requirements were changed on July 1, 2000, making custodial parents with incomes below 100 percent of the poverty line eligible to participate in the WtW program. This allowed THA to refer many public housing residents to IndEx for participation in the program.

THA agrees that 32 participants were determined eligible between October 2000 and June 2001. However, OESC suspended the WtW funds on February 2, 2001 and would not allow THA to recruit any additional participants. This action by OESC further impeded the success of the WtW program and attributed to the higher cost per participant.

Excessive expenditures on few participants

THA agrees that the outcomes were not as originally anticipated because of the reduction in the TANF roles shortly after the beginning of the contract and the stringent eligibility requirements of the WtW program. However, THA disagrees that the performance outcomes were dismal considering the population that is served and the barriers they face.

THA agrees that the participants, on average, stayed in the program for a short time. At least 3 participants dropped from the program due to medical reasons

and at least 3 more dropped from the program because of pregnancy. THA believes that staying a short time in the program is evidence of the difficulty of the task and confirmation that the WtW program is an effort to move the hardest to employ welfare recipients into unsubsidized jobs and economic self-sufficiency. The lack of attendance further emphasizes the benefit of the very nature of the IndEx program to provide basic yet useable skills such as accepting direction from a supervisor, the importance of showing up to work, structure, productivity, consistency, and efficiency. All of these skills are very useable and necessary in gaining employment. The MDRC report (Attachment K) cited IndEx as an innovative welfare to work program and provided participants with meaningful work experience as a step toward permanent job placement.

THA disagrees with the schedules presented. THA believes that the costs to the WtW program in these schedules do not give an accurate reflection of cost because it does not reflect the time and energy of the staff spent in recruiting clients that met the cumbersome and restrictive eligibility requirements. Additionally, the schedules do not reflect the attendance of participants prior to being determined eligible.

It is THA's contention that engaging the participants in activities while awaiting the paperwork flow was advantageous to retaining the participants in the WtW program. If this had not occurred, the participants would have lost interest and dropped from the WtW activities without receiving any benefits. In October of 1998, OESC instructed THA to contact the local Service Delivery Area (SDA) office to determine eligibility. This had a detrimental effect on the participation at IndEx since the SDA and IndEx were competing for the same clients, upon determination of eligibility the SDA would keep the clients in their program. During the monitoring review by OESC in March 2000, OESC instructed THA that it was responsible for establishing eligibility and not to use the SDA.

The following charts reflect Contract periods 1 and 2. They reflect the records of THA as to the number of participants enrolled per month, the average days of enrollment per month, and the cost to the WtW program per month. They show not only that our findings are slightly different from the Auditor, but also, the numbers reported to THA by IndEx are significantly different.

Number Enrolled per THA

Contract 1 – Chart 1

<u>Month Enrolled</u>	Number Enrolled	Average Days Enrolled	Cost to WtW
Dec 1998/Jan 1999	0	0	\$ 18,827
Feb 1999	7	8	19,125
Mar 1999	6	13	18,426
Apr 1999	7	7	27,261
May 1999	4	9	27,261
June 1999	3	6	40,405
July 1999	1	16	3,398
August 1999	3	4	682

September 1999	3	11	20,898
Total WtW			\$ 150,001

The following chart reflects the numbers being submitted to THA by IndEx on their monthly program summaries.

Number Enrolled per IndEx

Contract 1 – Chart 2

	Dec 98 / Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99
Reported enrolled	20	20	20	20	20	7	1	3	3

Now, as a result of these comparisons and an in-depth review, THA believes that IndEx was being deceptive by inflating their enrollment numbers as submitted on their monthly Program Summaries. This deception led THA to believe, at the time, that the attendance in the program was much higher than it actually was.

The following charts reflect the records of THA as to the number of participants enrolled per month, the average days of enrollment per month, and the cost to the WtW program per month in Contract 2.

Number Enrolled per THA

Contract 2 – Chart 1

Month Enrolled	Number Enrolled	Average Days Enrolled	Cost to WtW
Apr 1999 – Sep 1999	0	0	\$ 43,760
Oct 1999	2	8	24,107
Nov 1999	4	14	30,395

Dec 1999	3	9	41,982
Jan 2000	3	14	33,590
Feb 2000	3	12	27,812
Mar 2000	3	13	22,947
April 2000	2	16	16,407
May 2000	2	19	20,709
June 2000	2	14	23,251
July 2000 – Sep 2000	2	16	59,867
Total WtW			\$344,827

Number Enrolled per IndEx

Contract 2 – Chart 2

	4 /99	5/ 99	6/ 99	7/ 99	8/ 99	9/ 99	10/ 99	11/ 99	12/ 99	1/ 00	2/ 00	3/ 00	4/ 00	5/ 00	6/ 00	7/ 00	8/ 00	9/ 00
Reported Enrolled	0	0	10	10	15	25	23	0	9	8	8	0	0	0	0	0	0	0

The OIG Report states that “The table for Contract 2 only covers April 1999 through September 2000 because IndEx spent 93 percent of the funds (\$344,827) during this period while enrolling only three participants, an average of \$114,942 per participant.” THA would like to once again point out that this period is not reflective of any actual contract period and THA believes that the auditor used this period reflecting few participants to further emphasize the negativity of this report. THA would like to point out that April 1999 through September 1999 funds were only available to serve youth. As THA previously pointed out, this was an impossible task. The contract was modified in September 1999 to allow youth and adults to be served under the contract. Subsequently, in July 2000 the WtW regulations regarding participant eligibility were changed. This change allowed more people to be served.

If the Auditor's had continued their review of the program, they would have discovered that the number of participants enrolled improved dramatically following changes made by THA. In October 2000 – 18 participants were served; November 2000 – 17 participants served; December 2000 – 19 participants served; and for the final month of the contract January 2001 – 20 participants were served. In conclusion, the hiring of a WtW coordinator, the contract change from youth to adult and youth, and the change in WtW regulations provided an opportunity for more participants to be served.

The report points out that IndEx spent the remaining \$27,914 under this contract between October 2000 and December 2000, however, it should be noted that participants were served for the remainder of the contract period to January 31, 2001.

In an effort to re-emphasize the cumbersome and restrictive eligibility requirements prior to the aforementioned change THA has chosen to include portions of the definitions as found in 20 CFR 645.212 as follows in part:

Paragraph 645.212(a) required that the individual must be receiving TANF; must face at least two of three specified barriers to employment (has not completed secondary school or obtained a certificate of general equivalency; requires substance abuse treatment for employment; and/or has a poor work history); and must be a long-term TANF recipient (at least 30 months receipt of TANF or must be within 12 months of a Federal or State time limit on TANF eligibility).

Paragraphs 645.212(b) and (c) set the criteria for serving non-custodial parents and individuals who no longer receive TANF due to a Federal or State time limit on eligibility. Non custodial parents were eligible when the custodial parent or minor child is a current long term TANF recipient (30+ or within 12 months); and required them to also face at least two of the three specified barriers to employment as listed above. Other eligible participants were those that were current TANF recipients and noncustodial parents who have characteristics associated with long-term dependency such as school dropout, teenage pregnancy, low reading or math skills, poor work history, domestic abuse,

substance abuse, receiving housing, offender/ex-offender, individual with disability.

It is not difficult to understand why THA and IndEx had difficulty in interpreting, and applying such regulations as well as recruiting for such a program.

THA disagrees further with the auditor's findings regarding the expenditure of \$38,908 of costs incurred between December 2000 and June 2001. These additional costs of \$38,908 were incurred and approved by OESC to be paid by THA from the new grant of \$600,000.

On August 1, 2000, THA signed and returned the \$600,000 contract to OESC. THA issued a Request for Proposal (RFP) on 8/28/00 in compliance with the OESC findings of July 2000. Two proposals were received on 9/22/00. In November 2000, THA's Board of Commissioners approved a Resolution awarding a portion of the contract to IndEx. THA forwarded the contract to OESC for approval (Attachment L). On February 2, 2001, THA received a letter from OESC suspending the funds. On February 8, 2001, the Executive Director of THA spoke with OESC staff and was informed that the funding was suspended but THA could continue to pay the Welfare to Work Coordinator's salary and the WtW participant wages from the OESC grant until further notice (Attachment M). On February 9, 2001, OESC staff e-mailed THA staff approving the cost of the WtW Coordinator to attend the Welfare To Work Conference on February 20th and 21, 2001 (Attachment N).

THA believes that the costs expended were reasonable under the circumstances prevailing at the time the decision was made to incur the costs. All costs were necessary for the operation of the organization and the performance of the award.

FINDING 3

IndEx did not come close to meeting either contract's performance goals.

RESPONSE TO FINDING 3

IndEx met participation goals even though it was subject to stringent contracted and regulatory eligibility requirements, while also striving to place as many participants as possible in employment. If the auditors had considered the amended performance goals, such conclusions reached by the auditors would have been different.

Tulsa Housing Authority disagrees with this finding. While it is true that the original deliverables reported on the Program Planning Summary submitted to OESC for Contract 1 and Contract 2 are as stated in Finding 3, these goals were revised during the contract periods to reflect a more accurate picture of the WtW program being operated by IndEx. On October 15, 1998, the THA Grant Administrator and Director of Resident Services attended training at the OESC office in Oklahoma City. This was shortly after receipt of Contract 1 for \$150,000

beginning 9/1/98. At the training, THA was asked to complete the Program Planning Summary with an **estimate** of how the money would be spent and an **estimate** of the number of participants that the program would serve and the number that would be placed in unsubsidized employment. The trainers stated that this form could be revised at any time to show a more accurate picture of how the money was being spent and who was participating in the program. The original estimates submitted by THA (after consultation with IndEx) were considered to be high because IndEx anticipated that future DHS referrals would be high because large numbers of referrals had been received from DHS in the past. Immediately following the initial receipt of WtW funding, the Department of Human Services (DHS) began experiencing significant reductions in the TANF roles, and the number of referrals to IndEx subsequently also began to decline.

Because of the stringent eligibility requirements of the WtW program, the difficulty in meeting these eligibility requirements and the realization that DHS would no longer be referring large numbers of TANF recipients to IndEx, on 1/25/99, the Program Planning Summary for Contract 1 was revised (Attachment H) and was submitted to and approved by OESC to show the following revised deliverables:

Participants Employment Status	Contract 1 Deliverables	Actual Performance
Number of Participants	23	24
Employment Status at Termination:		
Unsubsidized Employment (UE)	22	4
Full-time	11	2
Part-time	11	2
Remain 6 months in UE	11	2
Other Terminations	1	20

Under Contract 1, IndEx served more than 100% (24/23) of the number of participants intended. Contract 1 was in the amount of \$150,000, making the average cost per participant \$6,250. Under Contract 1, 18% of the participants

(4/22) entered unsubsidized employment, and additional funds were expended to provide Intake, Assessment, Eligibility Determination and Case Management services to participants during the contract term who either dropped out of the program or were terminated because of non-compliance. The number who entered unsubsidized employment was lower than anticipated because of the fact that this program presented the very difficult task of transitioning the hardest to employ, sometimes referred to as unemployable, welfare recipients into unsubsidized employment and self-sufficiency, THA believes these numbers are certainly not dismal.

The Program Planning Summary originally submitted to OJA for Contract 2 is accurately shown in the finding from DOL; however, the Program Planning Summary showing those numbers was submitted at the beginning of the program as an estimate. On 11/13/00 the Program Planning Summary (Attachment H) was revised, submitted to and approved by OJA to reflect the following revised deliverables:

	Contract 2 Deliverables	Actual Performance
Number of Participants	30	35
Employment Status at Termination:		
Unsubsidized Employment (UE)	13	3
Full-time	10	3
Part-time	3	0
Remain 6 months in UE	3	1
Other Terminations	1	32

Under Contract 2, IndEx enrolled more than 100% (35/30) of the number of participants intended. Contract 2 was in the amount of \$372,741, making the total cost per participant \$10,650, a slightly higher amount than Contract 1 due to the fact that the contract was originally for juveniles only and recruitment of this population, as well as eligibility determination, was an impossible task. Under

Contract 2, 8% of the participants (3/35) entered unsubsidized employment, and additional funds were expended to provide Assessment, Eligibility Determination and Case Management services to participants during the contract term who either dropped out of the program or were terminated because of non-compliance. Again, the number who entered unsubsidized employment was lower than anticipated because of the fact that this program presented the very difficult task of transitioning the hardest to employ, sometimes referred to as unemployable, welfare recipients into unsubsidized employment and self-sufficiency. THA believes these numbers are certainly not dismal.

The Auditor states that 91% of the participants were served 17 months following the initiation of the contract. THA recognizes that this occurred and attributes this to three factors. Those factors are outlined below.

Factor (1): From the beginning of Contract 1, all WtW programs were having difficulty meeting their performance goals due to the stringent eligibility requirements. These stringent eligibility requirements were finally changed July 1, 2000, making custodial parents with incomes below 100 percent of the poverty line eligible to participate in the WtW program. This allowed THA to refer many THA residents who were custodial parents with incomes below the poverty line to IndEx for participation in the program.

Factor (2): From February 1999 to September 1999 Contract 2 was for only WtW eligible youth referred by the Tulsa County Office of Juvenile Affairs. After several months of attempting to enroll adjudicated youth through the Tulsa County OJA, all staff involved realized that this was not feasible due to the fact that the youth were not TANF recipients and the youth did not have verification of their parents' TANF and other eligibility criteria. Also, Tulsa County OJA officials did not want to refer the youth for a work training and GED program, they wanted to return their youth to the public school system. Therefore, Contract 2 was modified in September 1999 to change the definition of WtW eligible participants. Section IVA was modified to read: "THA agrees to serve youth and/or adults who

are eligible WtW participants with the funds awarded to them pursuant to this contract,” and Section IVA3 was modified to read: “Eligible participants, in conjunction with the local WtW operating entity, will be referred to THA from any agency or organization that has knowledge of or is working with juveniles or adults that meet WtW eligibility criteria.” The Modification was signed by Tulsa Housing Authority on 11/11/99 and by OJA on 12/19/99, and was retroactive to September 1, 1999. (Attachment O)

Factor (3): The June 30, 2000 Monitoring Report from OESC (Attachment D) was the first Monitoring Report conducted by OESC. THA’s management took immediate steps to resolve the noted findings. Although the August 11, 2000 response from the OESC (Attachment F) accepted THA’s responses and did not disallow any costs THA’s management made immediate changes.

- 1) The position of Grant Accountant was strengthened.
- 2) Responsibility for Grant Development and Grant Administration was removed from the Director of Resident Services and was assigned to a new position, Director of Development.
- 3) A Welfare to Work Coordinator (WtW) was hired to work on-site at IndEx.
- 4) Active recruitment of Public Housing residents was mandated. Active recruitment had not been previously mandated.

As you can clearly see in the table below, the participant numbers reported to THA by IndEx increased dramatically following the eligibility requirement changes, the modification to Contract 2, and the THA Executive Director’s direct involvement and corrective action.

The table below shows the month of the year 2000 and the actual WtW program enrollment numbers from participant files.

1/00	2/00	3/00	4/00	5/00	6/00	7/00	8/00	9/00	10/00	11/00	12/00
3	3	3	2	2	1	1	1	0	12	19	19

In summary, IndEx met both contract's performance goals in regard to the number of participants enrolled in the program, as stated on the revised and approved Program Planning Summaries submitted to OESC and OJA. The number of participants entering unsubsidized employment and remaining in employment 6 months fell short of the goal due to the fact that this program presented the very difficult task of transitioning the hardest to employ welfare recipients into unsubsidized employment and self-sufficiency.

FINDING 4

IndEx's financial management system was inadequate to account for Federal grant funds.

RESPONSE TO FINDING 4

Response: THA appropriately placed trust and confidence in the financial, management, and abilities of the IndEx organization because of its business affiliation with the Tulsa Chamber of Commerce and its Officers and Board.

Tulsa Housing Authority disagrees with the Auditor's finding that THA entered into a subcontract agreement with an entity which the Auditor's thought to be unable to handle the administrative responsibility of a federal grant. The fact that both the Board of Advisors of the Chamber of Commerce and the Board of Directors of IndEx were comprised of leading members of the business community was also a major factor. The Tulsa Chamber of Commerce also provided accounting software for the program that THA was led to believe would meet all financial and accounting reporting needs.

THA realized that IndEx's exposure to the administration of federal grants was limited to the collaborative efforts with THA on two federal grant programs, Economic Development/Supportive Services and YouthBuild. However, in addition to those collaboratives, a report released by the Manpower Demonstration Research Corporation in **1997** (Attachment K), identifies numerous other sources of funding that the non-profit had received since its inception in 1992. The report states "IndEx received a series of small grants (less than \$50,000 each) from a variety of sources, including local private foundations, corporate giving programs, and a Community Development Block Grant (CDBG) from the City of Tulsa." Furthermore, IndEx received a contract award through the Oklahoma Department of Human Services (DHS) and the Job Opportunities and Basic Skills Training Program, created by the Family Support Act of 1998 (JOBS) as a Certified Work Experience Program (CWEP) placement.

Additionally, a report published by the Harvard Business School (Attachment G) states, "From private sources, the Ford Foundation and the Charles Stewart Mott Foundation have provided substantial support." That same report identifies "Four of IndEx's customers account for 80% of its earned income: Zebco, Hilti, Whirlpool and Jamoco." Undeniably, THA had no reason to feel that IndEx lacked the ability to administer a federal grant due to their relationship with the Tulsa Chamber of Commerce, their experience contracting with international corporations such as Zebco, Hilti and Whirlpool, and their experience with both the City of Tulsa and the State of Oklahoma through the Department of Human Services (DHS.)

Tulsa Housing Authority acknowledges that many mistakes were made by IndEx in the simple "accounting" for various expenditures. Many such errors were small in amount. The financial management systems were, in THA's opinion, acceptable at the time of the initial contract award.

At the time of the initial Service Agreement in December 1998, Tulsa Housing Authority believed that IndEx's financial management system was adequate. THA's Controller met with the IndEx Executive Director to address general accounting issues, support and documentation of monthly invoices and especially cost allocation methodology. A "per participant" methodology for cost allocations was discussed and agreed to at that time. THA acknowledges that a documented acceptable cost allocation plan was not implemented as IndEx agreed.

THA further acknowledges that some errors were made monitoring of monthly invoices. However, Tulsa Housing Authority took immediate steps to improve their monitoring of the IndEx program, including financial monitoring, following receipt of the Monitoring Review Report dated June 30, 2000 from the Oklahoma Employment Security Commission (OESC). Tulsa Housing Authority hired both a Grant Accountant and a WtW Coordinator. The primary responsibility of the Grant Accountant was the receipt and processing of invoices and monthly monitoring reports sent to OESC and OJA. THA requested invoices as well as check copies to show that the charges to the WtW program were allowable and had been paid. THA feels that this was sufficient documentation to approve for payment. Each invoice was compared to documentation provided to insure late charges were not paid and current charges were allowable. If discrepancies were found, THA staff informed IndEx who then submitted corrected invoices before payment was made to IndEx. Spreadsheets were submitted with each invoice to insure that no more than 100% was charged to any program. It was not until January 2001 (following the closeout of both Contract 1 and Contract 2) that THA discovered voided checks and other indications of improper documentation that had been provided by IndEx. Once the Grant Accountant was in place, the mistakes were minimal. As the findings show, Contract 2 had minimal errors in the documentation of the monthly invoices.

The Grant Administrator also increased programmatic monitoring efforts and put into place a quarterly monitoring system of participant files. The Grant Administrator monitored the participant files being kept at IndEx in September 2000, and sent a letter (Attachment P) to the Executive Director of IndEx, noting omissions and deficiencies found in the files. Following the hiring of the WtW Coordinator in November 2000, the duty of monitoring participant files was assumed by the WtW Coordinator.

The WtW Coordinator was placed on site at IndEx to work with DHS, maintain the participant files in compliance with regulations, and make certain that costs were charged to the appropriate cost categories.

THA also held quarterly grant oversight meetings during the term of both Contract 1 and Contract 2 to discuss financial and programmatic matters. During these meetings, IndEx staff gave reports indicating that WtW eligible participants were participating in appropriate and allowable WtW activities. THA presented financial projections and gave status reports on the grants as all staff involved reviewed the projections.

Following receipt of the Monitoring Review Report dated June 30, 2000 from OESC, Tulsa Housing Authority worked diligently with the staff of OESC to gain a better understanding of this complex program. OESC's findings were related to eligibility determination, compliance with participant files and supporting documentation, Individualized Strategies, and the definition of the "Work Experience" category, as well as "Job Readiness," and "Post Employment" and "Job Retention" cost categories. These findings were written on June 30, 2000, six months AFTER the close of Contract 1 and five months AFTER the beginning date of Contract 2. In OESC's reply to THA's response to the findings from the March 2000 monitoring visit, the following was stated. "OESC found no evidence of any deliberate attempts to misuse the funds during our review. In fact, we found the THA staff and those of your subcontractors (IndEx) making every effort

to have a positive impact on the lives of your WtW participants. Therefore, we accept your responses and do not identify any disallowed costs.”

Perhaps THA should have taken a closer look at the financial stability of the entire IndEx corporation earlier, however, THA did not feel that this was necessary due to IndEx’s standing in the community and their past performance as earlier discussed. THA did, however, monitor the financials regarding the WtW Program that were prepared monthly and quarterly internally and with the IndEx staff.

In January 2001, THA accounting staff assisted IndEx in closing out their calendar year 2000 financials. It was at that time that THA became aware of weaknesses in the IndEx financial system and software. THA then recommended that IndEx purchase and utilize software called “Peachtree 2000” which they implemented in February 2001.

In March 2001, the Tulsa Chamber of Commerce contacted THA and expressed that they no longer had an interest in supporting the IndEx Program and asked if THA would be interested in assuming the leadership role. At that time, the THA Executive Director appointed a team of four senior staff members to determine the feasibility of purchasing the job training program from IndEx. In May 2001, based on THA’s belief in the need for a program of its kind to be located in Tulsa, and due to the potential benefits the concept held for THA residents, THA purchased the Job Training Program from IndEx.

Once again, THA acknowledges mistakes were made in the financial accounting of expenditures. Many such mistakes are minor in amount. THA maintains that it had every reason to believe that IndEx had an adequate financial system to administer federal grants.

Tulsa Housing Authority did not provide “poor” oversight as maintained by the auditor’s statements.

Tulsa Housing Authority has responded to each individual finding included in Finding #4 in the following pages.

A. No cost allocation plan (CAP).

Management Corrective Action Plan:

THA agrees that IndEx did not have a documented allocation plan. THA has further reviewed the methodology used with the IndEx Executive Director and agrees the methodology was not a supportable method.

As previously noted, THA had agreed to an acceptable “per participant” allocation method with IndEx. Such method was never implemented and THA failed to recognize this fact.

If it becomes necessary, THA would request that it be assisted in establishing an acceptable allocation method and be allowed to reallocate costs accordingly.

B. Unallowable costs charged to the contracts.

Management Corrective Action Plan:

(1) Precontract costs -

THA agrees most of these cost incurred were prior to the contract date with IndEx for Contract 1. THA did not find that Sand Springs Home invoice was charged to the program at 46% and \$788. The grant was charged at 23% and \$736. THA also did not find the Amerigas invoice dated December was charged to the program at 53% for \$20.57. The documentation for that invoice represents 50% for \$62.65.

(2) Credits and refunds –

THA agrees credits were issued to IndEx and the WtW program did not received the benefit on Contract 1.

(3) Duplicate payments –

THA has reviewed invoices provided in Attachment 3 and agrees with most on Contract 1. THA found the American Waste invoice for February to be for two separate billings with a different invoice amount.

(4) Late payment fees –

THA agrees with Attachment 4 that late charges were paid in error on Contract 1.

THA reviewed Attachment 5 and only found 3 out of 32 invoices where late charges were paid in error.

(5) Charges for non-WtW participants –

(a) THA agrees.

(b) THA agrees that the individuals were not WtW participants. The Executive Director of IndEx reports that they were students acting in a lead/supervisory position. Students that were most employable were promoted to the lead/supervisory position to gain additional experience that reflected positively on his/her resume. The positions were on a rotational basis and as they became employed or left the program others were selected for the positions.

(6) Excess rent –

THA agrees with the finding on Contract 1.

THA disagrees with all the finding on Contract 2. THA agrees that there was no invoice for rent provided on June 1999 invoice. However, the check received was for July 1999 rent not June 1999. THA disagrees that an invoice for rent was not provided on July 1999 invoice. The documentation

provided indicates this is for August 1999 rent not July 1999. THA was unaware of any checks that were later voided.

(7) Repaid expenses –

The WtW program was charged \$36,225.77 for technical assistance and supportive services THA provided IndEx. THA repaid IndEx \$30,984.08 for the amount that IndEx had actually paid to THA. The difference of \$5,241.69 was not paid to THA by IndEx and therefore remained with IndEx to further benefit the program. The Executive Director of IndEx told THA that the funds repaid by THA were used to pay whatever expenses were due. THA repaid the program in good faith to further benefit the WtW participants.

(8) Costs directly and indirectly charged to the program –

IndEx charged the WtW program salaries and benefits based on an allocated portion of all personnel. THA agrees that a supportable allocation method was not used and is requesting assistance to establish and reallocate such cost on an agreed upon method.

(9) Insurance on leased building –

IndEx carried General Liability, Auto and Property insurance. THA believes insurance coverage was necessary in order to protect the contents in the building. The van was used to transport participants and protect IndEx in case of injury or accident. Insurance was not for the building, which the landlord covers, but for the contents inside the building or liability claims filed from participants.

C. Inadequate documentation.

Management Corrective Action Plan:

(1) Employee Reimbursements –

- (a) THA disagrees that there was no documentation to support the expense. Attached to the expense reimbursement form were invoices from vendors to buy supplies for the production floor. THA believes these expenses were necessary in order for the participants to produce the products.**
- (b) THA agrees.**
- (c) THA agrees.**
- (d) THA agrees that Wayne Rowley and Jeff Walderich were Tulsa Chamber of Commerce employees. Wayne and Jeff had gone to trainings, meetings and provided consultant work that was outside the**

scope of their normal work. IndEx management made the decision to pay for their time and effort. These specific costs are ineligible.

- (e) THA has reviewed the October 1999 and March 2000 invoices for charges to the WtW program for Wayne Rowley's wireless phone. THA disagrees that the charges to this program were for Wayne Rowley's wireless phone.

(2) Rental Reimbursements –

IndEx and Keystone had only a verbal, month by month, lease. THA was provided a statement from IndEx for the monthly amount of rent with check copy for proof of payment. THA believes this is supportable and an allowable expense. THA was unaware of any checks that were later voided.

(3) Vendor Expenses –

The payments made to Sarge's Manufacturing were for security provided to IndEx. THA asked the Executive Director of IndEx to explain what security Sarge's provided. Attached is a memo (Attachment Q) stating the responsibilities of Merle Brown. THA paid IndEx based on invoices and check copies provided to support these expenses.

(4) General Expenses –

THA has reviewed the table provided in Attachment 6 for Contract 1. THA agrees that 2 out of the 5 listed did not have proper documentation.

THA has reviewed the table provided in Attachment 6 for Contract 2. THA agrees that 3 out of the 22 listed did not have proper documentation.

(5) Participant Supportive Service Expenses –

THA agrees.

(6) Voided or Missing Checks –

- (a) THA agrees the check written to the Executive Director of IndEx was later voided. THA disagrees that the receipts included for that expense were not eligible. These expenses were for supplies used to operate the program.
 - (b) THA agrees.
 - (c) THA was provided proper documentation including check copies and invoices for proof of payment. THA was unaware of any checks that were later voided.
- (7) **Transportation Expenses –**
- (a) There is a list of individuals who participated in tours and orientations at IndEx. Bus passes were given to many of these participants. THA agrees other than this list, specific participants who received bus passes cannot be identified.
 - (b) Bus passes were given to participants, by the book, which included 10 bus rides for \$6, if they were going to ride Metropolitan Tulsa Transit Authority shuttle. If IndEx's van was used then the participant were charged only \$3. THA agrees that the amount charged should be in equal increments.
 - (c) There is a list of individuals who participated in tours and orientations at IndEx. Bus passes were given to many of these participants. THA agrees other than this list, specific participants who received bus passes cannot be identified. THA agrees that the same documentation was used for both June and July 2000 invoices.

(d) IndEx provided bus passes on site as a convenience. The participants purchased them from IndEx to save the time and effort required in going elsewhere to purchase them. THA agrees that the bus passes should not have been deducted from the Work Experience of WtW participants since they could have been charged to WtW as a Supportive Service.

(8) Salary Expense -

IndEx charged the WtW program salaries and benefits based on an allocated portion of all personnel. IndEx did not keep time and attendance records for employees but did for the participants in the program. THA is unaware that time and attendance records are a requirement but that a supportable allocation method would be sufficient.

(9) Program Income –

On numerous occasions, THA staff informed OESC staff that THA has only federal funds available and therefore, cannot provide a “match”.

THA was never involved in the decision as to what was an in kind match. OESC staff contacted IndEx directly regarding any match requirements. A copy of this letter (Attachment R) dated July 16, 2000, supplied by IndEx to Tami Decker of OESC indicting match and contributions from Hilti.

Reviews and numerous discussions between OESC, OJA, and THA never addressed compliance or non-compliance regarding the program income requirement.

It was THA's belief they were in compliance with the contract between OESC and OJA.

CONCLUSION

In the proceeding pages, THA has consistently made the point it followed a clear understanding and direction that Welfare to Work (WtW) funds received were to be passed to Industrial Exchange, Inc. (IndEx). Because of this understanding, THA selected a "sole source" provider in accordance with the State of Oklahoma, THA, and U.S. Department of Housing and Urban Development (HUD) procurement requirements. THA did not violate procurement requirements.

THA has included detailed explanation and numerous attachments regarding the history of IndEx, its association with the Tulsa Chamber of Commerce and the national as well as local publicity of the Index job-training program. THA's oversight efforts have been documented along with corrective actions taken by THA working closely with the Oklahoma Employment Security Commission (OESC) to implement and better monitor the WtW program. The auditors allegation of, "waste, abuse, and mismanagement", is not only incorrect, but wrong.

THA recognizes this is the first audit of its kind of a Welfare to Work (WtW) program by the regional Office of the Inspector General. The apparent lack of performance standards or program expectations has resulted in what THA believes to be more of a political statement about the lack of success of a federal program,

Welfare to Work (WtW), which resulted in harsh judgment with no available comparison. In addition, had the auditors considered the amended performance goals, the report would not have reached the same conclusion.

Some mistakes were made in accounting for expenditures of the WtW program. Most mistakes were of a simple accounting nature. THA further acknowledges that failure to follow-up to confirm IndEx, Inc.'s implementation of the agreed upon cost allocation plan is a concern.

The recommendation that "...the Assistant Secretary for Employment and Training to disallow questionable cost of \$561,649....." cannot be justified.

IndEx no longer exists as a functioning legal entity. THA purchased the job-training program in May 2001. Tulsa Housing Authority is a Public Housing Authority (PHA) federally funded by the U.S. Department of Housing and Urban Development (HUD). The disallowance of these funds will materially and adversely impact the Public Housing program of the City of Tulsa and would only hurt the people we are here to serve. All of our funds are dedicated to providing housing for the under privileged population of Tulsa.

THA is receptive to working with the U.S. Department of Labor and the Oklahoma Employment Security Commission (OESC) to resolve all findings.

Oklahoma Employment Security Commission



Jon Brock, Executive Director

Frank Keating, Governor

Representing Employers

George Olla, Jr., Commissioner
Ted Weber, Commissioner

Representing the Public
Rev. W. B. Parker, Chairman

Representing Employees

David Hill, Commissioner
DeWayne Goodman, Commissioner

February 27, 2002

John F. Riggs
Regional Inspector General for Audit
525 Griffin St., Room 415
Dallas, TX 75202

Dear Mr. Riggs:

We appreciate the opportunity to respond to the draft Financial-Related and Performance Audit of the Industrial Exchange, Inc., Governor's 15 Percent Welfare-to-Work Discretionary Funds Program December 16, 1998, through June 30, 2001. As you are aware, OESC monitors first reported the major issues addressed in the draft Audit Report. Since then, the Oklahoma State Auditor and Inspector (SA&I) performed additional work in this area and confirmed our monitor's findings. We have retained the SA&I to conduct a special follow-up audit for the purpose of determining that all Welfare-to-Work funds were spent in accordance with federal and contract requirements.

While we welcome and appreciate the hard work of the OIG auditors, we strongly disagree with their conclusion and believe their recommendations are unreasonable. For example you state that:

1. "THA circumvented required procurement procedures in order to select IndEx as a WtW service provider at the direction of the Oklahoma Office of Employment Security (OESC)."
 - Your auditors relied exclusively on an untrue statement by Tulsa Housing Authority (THA) to the SA&I without corroborating evidence or giving OESC an opportunity to verify if the information was true.
 - Given the unique aspects of the IndEx project, as indicated in news stories and national publications, Oklahoma's Central Purchasing Act allowed OESC to contract directly with IndEx if that was our intent. OESC's goal was to replicate the IndEx project.

2. "OESC received its direction from the Governor's office."
 - The OIG auditors arrived at this conclusion without any evidence whatsoever. Neither the Governor of Oklahoma, nor anyone on his staff, directed OESC to give money to IndEx, Inc. Clifton Scott, the State Auditor and Inspector, has concluded that there is no evidence the Governor directed OESC to give money to IndEx, Inc.
3. The OIG auditor's recommendation that "the Assistant Secretary for Employment and Training disallow questionable costs of \$561,649 for IndEx's dismal performance outcomes and their mismanagement, waste, and abuse of WtW funds and for THA's procurement of services from IndEx without competition" is unreasonable.
 - According to Generally Accepted Auditing Standards, questioned costs generally include unallowable cost, undocumented cost, unapproved costs, and unreasonable cost. OESC agrees that some cost will likely be disallowed, however we disagree with the draft Audit Report's recommendation to question all costs. The draft Audit Report clearly states that there were some participants served by the program. And while a case is made that many expenditures are unreasonable or undocumented, we believe it is OIG's responsibility to identify specific questioned costs, not to lump all expenditures together and claim poor performance. At a minimum, cost should be allowed for those participants that were served.
4. Furthermore, the draft Audit Report's recommendation for the Assistant Secretary to direct OESC to carryout its grant management responsibilities because of findings at IndEx are not warranted.
 - We believe that our grant management activities were effective in bringing these issues to the forefront.
5. In addition, we believe the audit process for this engagement has been contrary to Generally Accepted Auditing Standards and Government Auditing Standards and are not consistent with OIG's own published procedures. OIG auditors used uncorroborated evidence as fact and did not allow us full participation in the process.

Our intent and the Governor's intent have always been to replicate the IndEx project. Despite the impression created by the draft Audit Report, at least at one time, the IndEx project was worthy of replication. We are surprised and extremely disappointed, given IndEx's prior public reputation, in the poor performance documented by the OIG as it relates to the THA contracts.

The OIG auditing process

The OIG auditing process used is not consistent with the OIG's stated processes or the process explained to us during the initial entrance conference with OIG auditors. Our concern is that the process being used is not conducive to ensuring that accurate audit findings are presented or that audit recommendations are reasonable.

According to the on-site OIG auditors during their entrance conference here at the Oklahoma Employment Security Commission (OESC) on May 1, 2001, Industrial Exchange, Inc. (IndEx), a subrecipient of the Tulsa Housing Authority (THA), was being audited, not OESC, that OESC would have an opportunity to comment on the draft audit report; and that OESC would be expected to resolve any findings. Further, an exit conference would be held with OESC to discuss potential findings, conclusions and recommendations. Then OIG would draft their audit report and offer OESC an opportunity to respond.

Below is an excerpt from OIG's official web site concerning their audit report process:

Before the audit report is issued, an exit conference is held to communicate audit results to appropriate program or agency management and to obtain the auditee's management comments on proposed findings and recommendations. Management's input is important to ensure that the audit results are fairly presented, audit recommendations are reasonable and feasible, and any errors or misrepresentations are corrected. Following the exit conference, a draft report will normally be issued to the appropriate assistant secretary, with a request that management provide written comments on the facts, conclusions, and each recommendation presented in the report within 30 days. (Emphasis added.)

These procedures were not followed during this audit. The exit conference was not held prior to issuance of the draft report as described by the OIG. The exit conference was held after the draft report was issued and was not used to "ensure that the audit results are fairly presented, audit recommendations are reasonable and feasible, and any errors or misrepresentation are corrected." In fact, the on-site OIG auditors indicated they would make no changes in their draft report based on issues discussed in the exit conference.

Additionally, we are being required to respond during the same timeframe Tulsa Housing Authority (THA) is being asked to respond. (THA now apparently operates the IndEx project.) Therefore, we have not been given an opportunity to review THA's possible response to the draft audit findings. Such an omission is one more reason we are concerned about the process and its impact on factuality, reasonableness, and fairness.

Was IndEx worthy of replication?

Despite the impression created by the draft Audit Report, at least at one time, the IndEx project was worthy of replication. According to a White Paper on WiW originally issued by Secretary of Labor Alexis Herman in October 1997, "*placing the hardest-to-serve welfare recipients in jobs will require not only commitment but innovation.*" "*States, localities and service providers should take advantage of demonstration experience and the research and evaluation findings available on how to serve this target group.*"

In September 1997, approximately a year prior to OESC's contract with THA and other entities to **replicate** the IndEx project, the Manpower Demonstration Research Corporation (MDCR) published *Tulsa's IndEx Program: A Business-Led Initiative for Welfare Reform and Economic*

Development by Maria L. Buck. MDRC is a nationally recognized, nonprofit social policy research organization.

MDRC has launched the Connections to Work project with support from the Rockefeller Foundation and the Charles Stewart Mott Foundation. One objective is to identify promising practices through a series of case studies focused on communities at the forefront of developing innovative approaches to connecting welfare recipients with jobs.

The first in this series of case studies, supported by the Charles Stewart Mott Foundation profiles the IndEx program in Tulsa, Oklahoma.

The scale of programs similar to IndEx is likely to be small, but these programs have the potential for **replication**.

Financing the Expansion (1996-1997)

The programmatic expansion was made possible in large part by the general support grant of \$200,000 from the Charles Stewart Mott Foundation. The Foundation had recently created an initiative to identify and support innovative welfare-to-work programs that utilized a demand-driven approach and were focused on involving the business community. The grant placed IndEx on a secure financial footing.

In addition, the development of IndEx II brought a new influx of finances and resources to the program. Sponsored by the Oklahoma Departments of Education, Vocational and Technical Education, and Oklahoma's Office of Juvenile Affairs, IndEx received a \$150,000 start-up grant as well as in-kind resources from the Tulsa Public Schools and the Literacy Coalition of Tulsa. Overall, the Mott award and IndEx II funds increased the annual operating budget to \$500,000, up from \$140,000 in 1995.

Both of these enhancements led to increased placement rates: more IndEx participants were placed in jobs in 1996 than in all the previous years combined. Of the 286 participants enrolled in IndEx in 1996, 110 found employment and 76 remained enrolled in the program at the beginning of 1997.

By that time, IndEx had gained recognition both within Oklahoma and across the nation as an innovative business-led approach to welfare-to-work programs.

Likewise, there were also a number of news articles touting the virtues of the IndEx project. It was reported by Scott Cooper in the April 16, 1997 **Tulsa World** that

"One of Oklahoma's best welfare-to-work programs moved its business location downtown..." "Rowley said the IndEx program is popular throughout the country. Several times a year, he travels throughout the nation to meet with business leaders, chamber of commerce officials and state lawmakers."

Becky Tierman reported in the **Tulsa World** on May 28, 1997,

"We did not design IndEx as the result of federally mandated welfare reform programs, said George Singer, chairman of the chamber board. We did it because we wanted to. It's a proactive movement."

"Last Tuesday, I spent the day at the White House explaining the program, said Wayne Rowley, director of human resource development for the chamber. They asked, How do you get the community to support for such a program."

"Upon request of those states, he has spoken to members of state government in Connecticut, Pennsylvania, California and New York about Career Partners Inc., the chamber's school-to-work initiative, IndEx I and IndEx II."

Tulsa World Editorial, Program Breaks Welfare Chain, June 15, 1997.

"Tulsa's growing welfare-to-work program, which is winning national praise, takes on even more significance in light of welfare reform legislation that is fast becoming a reality."

"IndEx is quickly proving itself to be one of the most successful welfare-to-work programs in the country."

"Tulsa is lucky to have both business leaders and civic leaders who not only see the problem, but find the solution."

And Tom Jackson wrote in the **Lawton Constitution** on April 20, 1998

"LINC, or Linking Individuals to New Careers, is a welfare to work program, explained LINC program coordinator Krystal Brue.

Brue said she is interested in the IndEx or Industrial Exchange program in Tulsa run by the Metropolitan Tulsa Chamber of Commerce, which provides training, education and work experience in cooperation with industry for people seeking to get off welfare or escape deadend jobs.

The school is investigating that and would like to start something like that here, Brue said.

(Rep.) Deutschendorf said he's studied the Tulsa program and would love to see it replicated in Lawton."

In addition, the State Chamber sponsored a meeting on November 10, 1997 to discuss **replication** strategies for the IndEx program with representatives from several communities. Leading the discussion were Narcisa A. Polonio of Replication & Program Strategies, Inc., Mark Elliott of Public/Private Ventures, and Jennifer Phillips of the Charles Stewart Mott Foundation.

This is the context in which the decision was made to attempt replication of the IndEx program.

WtW performance requirements

It is also important to understand the difficult population being served by the Welfare-to-Work program and that the U.S. Department of Labor has not issued performance requirements. According to a White Paper on WtW originally issued by Secretary of Labor Alexis Herman in October 1997,

“... a Welfare-to-Work Grant initiative that will provide needed resources for States and localities to create job opportunities for the **hardest-to-employ** welfare recipients.”

“The key objective of welfare reform is to break the cycle of dependency by promoting responsibility and work.”

“Aiding the hardest-to-employ welfare recipients in finding sustained unsubsidized employment is a **formidable challenge** – one that requires a broad-based coordinated response that utilizes the resources of federal, State and local governments, private employers and other interested organizations.”

Neither USDOL nor the State of Oklahoma has issued WtW performance requirements. USDOL has established, but not required, a Government Performance and Results Act (GPRA) goal for retention of those WtW participants placed in unsubsidized employment. (60% will remain in the workforce for 2 quarters following the placement quarter)

Performance snapshots vary depending on when the snapshot is taken. Because of the original, onerous WtW eligibility requirements and the 70%/30% expenditure requirement, grant recipients nationwide enrolled few participants and overall expenditures were exceptionally low (but extremely high per participant). As a result, Congress modified WtW requirements to expand the eligible population and significantly changed the 70%/30% requirement. Ever since these modifications were implemented in October 2000, enrollments have gone up and expenditures per participant have gone down as over time grant recipients have significantly increased enrollments while still having the same amount of grant funds to expend.

However, Tulsa Housing Authority was not able to increase their enrollments and reduce their cost per participant since OESC stopped THA's ability to enroll customers on February 2, 2001, just 4 months after loosened eligibility requirements were implemented. (This was done due to serious concerns about potential inappropriate expenditures.) As a result, THA was unable to reduce their cost per participant over time as other grant recipients did. For example, in December of 2000, Oklahoma's cost per participant for all WtW funds expended was over \$14,000. As of December 2001, the cost per participant for all WtW funds expended in Oklahoma was approximately \$4,000.

Despite the difficulty of the program and the lack of WtW performance requirements, we are surprised and extremely disappointed, given IndEx's prior public reputation, in the poor performance documented by the OIG as it relates to the THA contracts.

“Finding #1. THA did not follow procurement procedures in order to select IndEx as a WtW service provider; consequently, THA contracted with an organization not financially solvent or proven successful enough to administer Federal grant funds.”

We do not take issue with the assertion that THA failed to follow required procurement procedures. However, we do disagree with the OIG discussion and inferences accompanying this finding.

“OESC staff informed THA staff the Governor had instructed that such funds be directly awarded from THA to IndEx, Inc....”

Not only is the OIG assertion untrue, there is not a reasonable basis for making this accusation.

Both Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS) address the issue of evidential matter. Both standards require that sufficient, competent, and relevant evidence be obtained to afford a reasonable basis for the auditors' findings and conclusions. Further GAAS states the auditor should obtain corroborating evidential matter by:

- Inspecting documents;
- Obtaining confirmations and other written representations from people within and outside the entity;
- Inquiring of client personnel and management; and
- Developing or reviewing pertinent information which permits the auditor to reach conclusions through valid reasoning.

The OIG auditors never requested any information from OESC to support or disprove the allegations made against us in the draft report. We were provided with a copy of the Statement of Facts issued to THA, but were told by on-site OIG auditors that no response was expected from OESC. In order to “ensure that the audit results are fairly presented, audit recommendations are reasonable and feasible, and any errors or misrepresentations are corrected”, OESC’s management should have been questioned regarding the allegations by THA and given an opportunity to respond prior to issuing the initial Statement of Facts as well as the draft Audit Report.

In addition to reviewing THA’s comment to the State Auditor and Inspector (SA&I) draft report, THA’s responses to OESC’s monitoring report should have also been reviewed. THA’s statement alone does not provide sufficient evidential matter in accordance with GAAS or GAS. Review of both reveals a direct contradiction; thus, questioning its reliance and sufficiency as evidential matter. After review by the SA&I they agree and it is our understanding that they will not include this statement in their final report.

Not only is there no legitimate basis for making this accusation, it is untrue. THA is apparently the only entity that believed OESC, at the Governor’s direction, wanted WtW 15% funds given to IndEx. When THA originally responded to OESC on July 20, 2000, concerning an OESC monitoring finding that questioned the entire IndEx contract amount, THA indicated that they entered into a sole source contract with IndEx because of the OESC contract language. (“WtW

grant funds are being provided for the purpose of **replicating** the IndEx Program in Tulsa.") Yet when THA responded on June 14, 2001, to a similar finding by the SA&I, THA's complete response was that they were informed on October 15, 1998, during an OESC training session, that OESC staff indicated that the Governor instructed that such funds be directly awarded to IndEx. OESC did not make such a statement and none of the other training participants had this understanding. OESC cannot state what THA believed, but we are certain that our actions were not responsible for that belief.

Likewise, the Office of Juvenile Affairs entered into similar WtW 15% funded contracts with THA and other entities yet none of the other entities provided WtW funds to Wayne Rowley or the IndEx project.

According to the OMB Circulars, the test for contracting with a sole source without competition includes: the material, product or service is available only from a single source, or the provider has a one of a kind capacity to make it available. Given the unique aspects of the IndEx project, as indicated in news stories and national publications, Oklahoma's Central Purchasing Act allowed OESC to contract directly with IndEx if that was our intent.

In addition, the Governor, nor anyone on his staff, instructed OESC to provide WtW or any other funds to the IndEx project. According to the Sept. 18, 2001 edition of the Capitol Network News, Clifton Scott, the State Auditor and Inspector, in discussing the current WtW Special Audit,

"said that despite a letter from Governor Frank Keating promoting IndEx as a company to participate in the program, he found no evidence that the Governor intended for the money to be used in a wrongful manner." "As far as any evidence where the Governor stiff-armed the Employment Security and said they have to have this contract, we didn't see any evidence, Scott said."

"IndEx also did not have a record of past success as a service provider."

The draft Audit Report quotes the Manpower Demonstration Research Corporation publication previously cited as indicating IndEx was unsuccessful. Unfortunately, the quote used by the OIG was taken out of context. In fact, as should be obvious from the earlier quotes from the MDRC report, the purpose of the document was to share IndEx as a project worthy of **replication** nationwide. Here is the entire statement quoted in the OIG Audit Report from *Tulsa's IndEx Program: A Business-Led Initiative for Welfare Reform and Economic Development*

TAKING STOCK

Unfortunately, **no reliable data are available on the rate of job placements or on retention in unsubsidized work, which would provide a measure of IndEx's overall success.** We do know, however, that over the years, IndEx has done increasingly more to address the needs of its participants, including providing transportation and child care assistance, developing the financial incentives with the 30- and 60-day training programs, and establishing post-placement services for participants in the training programs.

“...IndEx did not have experience with Federal programs before receiving the WiW funds.”

Since OESC did not contract with IndEx, we are unaware of whether IndEx had experience with federal funds, but we do not understand such experience to be a criterion for being eligible for grant funding. Otherwise, only those entities already receiving federal funds would be able to receive these funds in the future.

Additional findings

We are unable to respond to the remaining findings. We have contracted with the State Auditor and Inspector's office to conduct a Special Audit of all WiW programs to determine any problems, including those previously raised by our monitors and the State Auditor concerning THA/IndEx. The SA&I has yet to issue their Special Audit Report. And as previously indicated, we have not been given an opportunity to review THA's possible response to the OIG draft Audit Report before this response is required to be submitted.

OIG draft Audit Report Executive Summary

We take strong exception to the draft Audit Report's Executive Summary. Rather than summarizing the findings, the auditor has expanded on the unsubstantiated statements to create even more inflammatory statements.

“THA circumvented required procurement procedures in order to select IndEx as a WiW service provider at the direction of the Oklahoma Office of Employment Security [sic] (OESC).”

The OIG has moved from inappropriate, unsubstantiated statements and inferences to irresponsible assertions. There is no basis in the draft Audit Report for this statement and it is untrue. This is clearly in violation of Generally Accepted Auditing Standards.

“OESC received its direction from the Governor's office.”

While this statement is not in itself untrue, its placement following the accusation that OESC directed THA to circumvent procurement practices is obviously designed to imply that the Governor's office directed OESC to have THA violate procurement procedures. This is again untrue and the OIG has again violated acceptable auditing standards. There appears to be no legitimate purpose to such an unfounded statement.

“IndEx failed to come close to meeting their contract performance goals ...”

The OIG auditors have mischaracterized a planning summary with a performance requirement. Neither the contract between OESC and THA nor the contract between THA and IndEx were performance-based contracts. I.e., neither contract based contract payments on specific performance results. While it would appear that IndEx did not achieve the anticipated service

levels stated in their planning summary, those service levels were merely planning estimates, not contractual requirements. And as previously discussed, there are no state or federal performance requirements for WtW grant recipients.

“We recommend the Assistant Secretary for Employment and Training disallow questionable costs of \$561,649 for IndEx’s dismal performance outcomes ...”

According to Generally Accepted Auditing Standards, questioned costs generally include unallowable cost, undocumented cost, unapproved costs, and unreasonable cost. OESC agrees that some cost will likely be disallowed; however we disagree with the OIG’s recommendation to question all costs. The OIG clearly states that there were some participants served by the program. And while a case is made that many expenditures are unreasonable or undocumented, we believe it is OIG’s responsibility to identify specific questioned costs, not to lump all expenditures together and claim poor performance. At a minimum, cost should be allowed for those participants that were served.

“Furthermore, we recommend the Assistant Secretary direct the State to ensure:

- **Contractors and subcontractors adhere to Federal and State regulations in procuring services from providers.**
- **Service providers are adequately monitored.**
- **Service providers use an appropriate method of allocating costs.**
- **Service providers maintain adequate documentation to support allocation of cost to WtW programs.**
- **Service providers maintain an adequate time distribution system that reflects the actual activity of employees.**
- **Service providers properly account for program income.”**

We are puzzled by these recommendations. The OIG did not audit OESC yet these recommendations indicate that OESC is not conducting its grant oversight duties.

In the OIG’s draft audit Objectives, Scope, and Methodology section the OIG indicates that they *“also reviewed OESC’s monitoring reports. Since problems noted in the monitoring reports and auditor’s working papers were extensive, ...”*

According to the State Auditor and Inspector in his December 12, 2000 WtW Special Audit Report

“We commend the (OESC) monitors efforts and accomplishments in conducting the Financial and Programmatic Reviews of OJA and THA. Many of our findings originated with findings from OESC Monitoring Reviews.”

Again, according to the SA&I’s Special Audit Report,

“The following are some of the findings included in the Financial and Programmatic Review of THA:

- Competitive bidding process not followed ...
- There were no participant files ...
- There were no records maintained ..."

It would appear that OESC is at least adequately monitoring our grant recipients.

The SA&I's Special Audit Report detailed a number of suggested improvements to OESC's grant oversight activities. OESC agreed with the State Auditor concerning these deficiencies and proceeded to correct them.

In response to the previous findings by OESC monitors and the State Auditor's Office, OESC engaged the State Auditor to expand their Special Audit to all WtW grant recipients. While that Special Audit Report has yet to be presented, based on the draft findings submitted to OESC, no other grant recipient is exhibiting the problems identified at the Tulsa Housing Authority.

We would like to reiterate that the OIG did not audit OESC, nor did OESC contract with IndEx. For the OIG to assume that OESC is not carrying out its grant management responsibilities solely because of findings at IndEx seems unreasonable.

We are concerned that this draft Audit Report and the process used to develop it is not an attempt to represent fair, reasonable, or accurate results. Our intention is to work with the U.S. Department of Labor, our federal funding source for WtW funds, to determine whether any questioned costs should be disallowed. We are committed to ensuring that any disallowed expenditures, as determined by USDOL, are recovered.

Sincerely,



Jon Brock
Executive Director

John J. Getek, Deputy Inspector General for Audit
Emily Stover DeRocco, Assistant Secretary
Joseph Juarez, ETA Regional Administrator
Roy Hancock, THA Executive Director
Clifton Scott, State Auditor and Inspector