FINANCIAL AND COMPLIANCE CLOSEOUT AUDIT

WELFARE-TO-WORK COMPETITIVE GRANT PROGRAM

PRIVATE INDUSTRY COUNCIL SDA-V AND TRAINING PLUS FOUNDATION (SDA-V & TPF)

AGREEMENT NO. Y-7866-9-00-81-60

CLOSEOUT AUDIT PERIOD

OCTOBER 1, 1999 THROUGH MARCH 31, 2002

This audit was performed by Carmichael, Brasher, Tuvell & Company, Certified Public Accountants, under contract to the Inspector General, and, by acceptance it becomes a report of the Office of Inspector General.

Elliot P. Lewis

Assistant Inspector General for Audit

REPORT NO: 05-03-001-03-386
DATE ISSUED: February 26, 2003

Carmichael Brasher Tuvell & Company

Certified Public Accountants

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ACRONYMS

CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
KDHR	Kansas Department of Human Resources
MIS	Management Information System
OIG	Office of Inspector General
OMB	Office of Management and Budget
QFSR	Quarterly Financial Status Report
SDA-V & TPF	Private Industry Council Service Delivery Area - V and Training Plus Foundation (Grantee)
TANF	Temporary Assistance for Needy Families
TPF	Training Plus Foundation
WtW	Welfare-to-Work

EXECUTIVE SUMMARY

Carmichael, Brasher, Tuvell & Company, under contract with the U.S. Department of Labor, (DOL) Office of Inspector General, (OIG) has completed a financial and compliance closeout audit of the $3,767,968 Welfare-to-Work (WtW) Competitive Grant awarded to Private Industry Council SDA-V and Training Plus Foundation, hereafter referred to as SDA-V & TPF. The grant's original period of performance was October 1, 1999 through April 1, 2002. The grantee voluntarily terminated its grant agreement as of March 15, 2002. Our closeout audit period was from October 1, 1999 through March 31, 2002. As of March 31, 2002, SDA-V & TPF had claimed $2,658,726 of expenditures in support of 171 WtW clients served.

Our audit objectives were to assess SDA-V & TPF's internal controls and compliance with applicable provisions of WtW legislation, regulations, Office of Management and Budget (OMB) Circulars, and specific grant requirements in order to obtain an understanding and determine that internal controls were in place to properly and adequately prepare the SDA-V & TPF's Cumulative Quarterly Financial Status Report (QFSR); and to express an opinion on the expenditures, income and participants served as reported on the SDA-V & TPF's QFSR for the period ended March 31, 2002, based on our audit.

To answer the audit objectives, we interviewed SDA-V & TPF's key officials involved in the WtW initiative and reviewed supporting documentation provided by these officials. Our audit produced the following findings:

- unallowable costs totaling $521,152;
- questionable costs of $2,137,574 due to inaccurate QFSR expenditure allocations;
- unreported program income of $959;
- inadequate reporting of number of participants served; and
- two misclassified participants.

In summary, we recommend that the Assistant Secretary for Employment and Training Administration (ETA):

- recover $521,152 resulting from unallowable costs,
- ensure that SDA-V & TPF transfer funds of $11,041 to Kansas Department of Human Resources (KDHR) and record a receivable from ETA due to KDHR of $35,053;
- recover $2,137, 574 resulting from inaccurate QFSR expenditure allocations;
- recover $959 of program income; and
- ensure that corrections to lines 10, 10a and 10b are made to the QFSR to report 183, 123 and 60 participants, respectively.

SDA-V & TPF terminated the WtW program as of March 15, 2002, and began the process of ceasing operations of the grant. Two employees remained and received salaries through June 30, 2002. Fieldwork was concluded June 27, 2002. As of June 30, 2002, all activity of SDA-V & TPF was to have ceased.

The two entities that collectively comprise the grantee responded separately to the draft report. The responses from the Local Workforce Investment Board, previously SDA-V, and the Executive Director of TPF at the time the grant ended are summarized within each finding and recommendation, beginning on page 10. Their complete responses are included in Appendix A. These responses provided no additional information. As such, the recommendations above remain unchanged.

BACKGROUND

Welfare-to-Work Legislation

In August 1996, the Personal Responsibility and Work Opportunity Reconciliation Act reformed the nation's welfare laws. A system of block grants to the states for Temporary Assistance for Needy Families (TANF) was created, changing the nature and provision of welfare benefits in America. Moving people from welfare to work is one of the primary goals of Federal welfare policy.

In August 1997, President Clinton signed the Balanced Budget Act of 1997. This legislation amended certain TANF provisions of the Social Security Act and authorized the Secretary of Labor to provide WtW grants to states and local communities for transitional assistance to move the *hard-to-employ* TANF welfare recipients and eligible non-custodial parents into unsubsidized jobs and economic self-sufficiency.

In November 1999, as part of the Consolidated Appropriations Act for Fiscal Year 2000, the "Welfare-to-Work and Child Support Amendments of 1999" were enacted. The changes included in this legislation allow WtW grantees to more effectively serve both long-term welfare recipients and noncustodial parents of low-income children. WtW reporting requirements were also streamlined. Specific changes included new eligibility requirements, effective January 1, 2000, which expanded the pool of eligible clients for both targeted groups [*general eligibility/noncustodial parents (primary eligibility)* and *other eligibles]* as well as allowing 6 months of vocational education and job training prior to "work-first" activities.

Summary of SDA-V & TPF's WtW Competitive Grant:

The DOL, ETA awarded a $3,767,968 WtW Competitive Grant to SDA-V & TPF on October 1, 1999. The grant's period of performance was October 1, 1999 through April 1, 2002. The scope of work, as of Modification No. 1, which was effective September 25, 2000, required SDA-V & TPF to serve a minimum of 302 participants, of which 40 percent (or 120) were to be placed in unsubsidized employment and 6 months after attaining unsubsidized employment, at least 50 percent (or 60 participants) of those were to be employed in unsubsidized employment at the 6 month follow-up.

Other changes included in Modification No. 1 were the realignment of Budget amounts between the various line items of the original grant application, increasing the number of service areas from 4 to 17, and to amend Part IV – Special Conditions Item # 6 – to increase the consultant fees from $400 per day to $450 per day.

Shortly after the grant was awarded, the grantee, SDA-V and TPF, entered into an agreement with KDHR. The agreement states it is "for the purpose of accepting funds under this grant, for the provision of grant management services, and for the WtW coordination of services."

As fiscal agent for the grant, KDHR was given authority to draw down and disperse funds to TPF, on request. TPF requests were to be submitted to SDA-V and co-signed before being forwarded to the State Fiscal Unit of KDHR for processing and payment. KDHR was also required to monitor this project at least every 6 months, and provide for an independent audit, using grant funds. Finally, KDHR was to provide intake and assessment of participants and refer those who could be best served by WtW to TPF. The coordination of services was necessary because participants were receiving services from both the KDHR WtW formula grant and this WtW competitive grant.

PRINCIPAL CRITERIA

The DOL issued regulations found in 20 CFR 645, to implement the provisions of the Balanced Budget Act of 1997. Interim Regulations were issued on November 18, 1997. Final Regulations were issued on January 11, 2001, and became effective April 13, 2001. Also, on April 13, 2001, a new Interim Final Rule became effective, implementing the Welfare-to-Work and Child Support Amendments of 1999. This resulted in changes in the participant eligibility requirements for competitive grants, effective January 1, 2000.

As a nonprofit, SDA-V & TPF is required to follow general administrative requirements contained in OMB Circular A-110, which is codified in DOL regulations at 29 CFR 95, and OMB Circular A-122 requirements for determining the allowability of costs.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our audit objectives were to:

(1) assess SDA-V & TPF's internal controls;

(2) assess SDA-V & TPF's compliance with applicable provisions of WtW legislation, regulations, OMB Circulars, and specific grant requirements; and

(3) express an opinion on the expenditures, income and participants served as reported on the SDA-V & TPF's QFSR as of March 31, 2002.

Scope and Methodology

We performed a financial and compliance closeout audit for the period October 1, 1999 through March 31, 2002.

Financial

We audited $2,658,726 of claimed expenditures as reported on the QFSR dated March 31, 2002. The QFSR reported Federal expenditures which included salaries, fringe benefits, equipment, administrative costs, supplies, travel, and indirect costs incurred by SDA-V & TPF, as well as the contractual costs for the subgrantee, KDHR.

Using a judgmental sample, we audited the salaries, fringe benefits, and supportive services incurred by SDA-V & TPF as well as a sample of expenditures for KDHR. Using a statistical sampling plan and methodology, we audited the remainder of SDA-V & TPF's claimed costs. However, the questioned costs within our sample were not projected to the universe of claimed costs. We tested 937 transactions totaling $1,223,060.

We reviewed SDA-V & TPF's compliance with Federal requirements pertaining to the WtW Competitive Grant. SDA-V & TPF provided us with an audit report prepared in accordance with OMB Circular A-133. This audit report was the only other audit previously performed on the grant and covered the period of October 1, 1999 through December 31, 2000. The Report on Internal Control Over Financial Reporting (in Accordance with GAAS) and the Report on Compliance with Requirements Applicable to The Federal Program and Internal Control Over Compliance identified questionable expenditures but did not report any material weaknesses. We relied on the auditors' assessment of internal control but also performed additional evaluations of SDA-V & TPF's system of internal accounting control as it affected the QFSR.

Compliance (Eligibility)

We reviewed 53 randomly selected client files from SDA-V & TPF's database which contained 183 WtW clients served. We tested both the client's WtW eligibility and designated eligibility target group [*general eligibility/noncustodial parents (primary eligibility)* - 70 percent or *other eligibles* – 30 percent] for all 53 reviewed client files. All 53 participants were served after January 1, 2000.

Our audit was performed in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards as issued by the Comptroller General of the United States. Fieldwork began May 20, 2002, and concluded on June 27, 2002.

Carmichael Brasher Tuvell & Company

Certified Public Accountants

Ms. Emily Stover DeRocco
Assistant Secretary for Employment and Training
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying WtW Competitive Grant Cumulative Quarterly Financial Status Report (QFSR) of Private Industry Council Service Delivery Area - V and Training Plus Foundation (hereafter referred to as SDA-V & TPF) – Grant number Y78669008160 – for the period October 1, 1999 through March 31, 2002, for the U.S. Department of Labor, Office of Inspector General. Amounts reflected in the QFSR are the responsibility of SDA-V & TPF's management. Our responsibility is to express an opinion on the expenditures, income and participants served as reported on the QFSR based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the QFSR is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the QFSR. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall QFSR presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

The QFSR was prepared for the purpose of complying with and in conformity with the grant reporting requirements stipulated in the WtW Competitive Grant regulations of the U.S. Department of Labor as described in Note 1, which is a comprehensive basis of accounting other than generally accepted accounting principles. The QFSR is not intended to be a presentation of SDA-V & TPF's assets and liabilities or revenues and expenses, but rather a presentation of only those items reported on the QFSR on the basis of accounting described in Note 1.

As discussed in the Findings and Recommendations section of this report, the lack of adequate internal controls necessary to properly report the expenditures, income and participant data on the QFSR resulted in the reporting of unallowable costs, noncompliance with grant requirements, and misclassified and inadequate documentation of participants.

Opinion on Cumulative Quarterly Financial Status Report

In our opinion, because of the matters identified above and the $2,658,726 of questioned costs (see Findings and Recommendations), line 2, Federal Expenditures, of the QFSR, does not present fairly, in all material respects, the total allowable incurred costs as cited for the period from October 1, 1999 through March 31, 2002, in conformity with the aforementioned basis of accounting. Due to the matters described in the Findings and Recommendations Section of this report, we are unable to express an opinion as to the allocation of incurred costs between the functions of programmatic and administrative costs as reported on the QFSR lines 3-5, and the allocation of expenses among the categories of participants served as reported on the QFSR lines 6a and b. Additionally, in our opinion, line 10 of the QFSR which reported 171 participants served was not fairly presented, as 183 participants were served.

Report on Internal Control

In planning and performing our audit of SDA-V & TPF's QFSR for the period October 1, 1999 through March 31, 2002, we considered its internal control by obtaining an understanding of SDA-V & TPF's internal control and assessed control risks in order to determine our auditing procedures for the purpose of expressing our opinion on the QFSR and not to provide assurance on internal control. As part of our understanding of the SDA-V & TPF's internal control, we reviewed a report on internal control prepared by Joseph Melookaran, CPA, as described below. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management. Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions under standards established by the American Institute of Certified Public Accountants.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In obtaining our understanding of SDA-V & TPF's internal control, we reviewed an audit report prepared in accordance with OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations." This audit report was prepared by Joseph Melookaran, CPA and was the most recent available covering the period October 1, 1999 through December 31, 2000. The audit report reported weaknesses which we noted during our closeout audit of SDA-V & TPF. Although we relied on this prior auditor's assessment of internal control, we performed a limited evaluation of SDA-V & TPF's system of internal control as it affected the accumulation and reporting of financial and statistical data on the QFSR.

We noted several matters involving internal control and QFSR preparation that we consider to be material weaknesses as defined above. The following internal control weaknesses are explained in detail within the Findings and Recommendations section of this report, which are:

- unallowable costs;
- noncompliance with grant requirements; and
- misclassified and inadequate documentation of participants.

Report on Compliance

We have also audited SDA-V & TPF's compliance with the requirements governing the WtW Competitive Grant. Compliance with laws, regulations, contracts, and grants applicable to SDA-V & TPF is the responsibility of SDA-V & TPF's management. To obtain reasonable assurance about whether the QFSR is free of material misstatements, we performed tests of SDA-V & TPF's compliance with certain provisions of laws, regulations, grants, and contracts. However, providing an opinion on overall compliance was not the objective of our audit. Accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in Finding 2 in the Findings and Recommendations section of this report.

This report is intended for the information and use of the U.S. Department of Labor, Employment and Training Administration and SDA-V & TPF and is not intended to be and should not be used by anyone other than these specified parties.

CARMICHAEL, BRASHER, TUVELL & COMPANY

Carmichael, Brasher, Tuvell & Company

Atlanta, Georgia
June 27, 2002

U. S. DEPARTMENT OF LABOR
Employment and Training Administrative
WTW COMPETITIVE GRANT

Cumulative Quarterly Financial Status Report

REPORTING PERIOD: October 1, 1999 through March 31, 2002

GRANT NO: Y78669008160 **Date Submitted:** 05/07/2002

Reporting Grantee Information	**Grantee Contact Information**
Grantee Name: PRIVATE INDUSTRY COUNCIL SDA-V AND TRAINING PLUS	
Address: 302 North Locust	Address: 302 North Locust
City: Pittsburg State: KS Zip: 66762	City: Pittsburg State: KS Zip: 66762

Section I. GRANT TOTAL	
1. Federal Grant	$ 3,767,968
2. Federal Expenditures	2,658,726
3. Federal Administrative Expenditures (15% Max)	363,486
4. Federal Technology/Computerization Expenditures	45,107
5. Federal Program Expenditure	2,250,133
6. Expenditures for:	
a. General eligibility/Non-custodial Parents Category	2,096,114
b. Other Eligibles (30% Maximum) Category	562,612
7. Unliquidated Obligations	0
Section II. FEDERAL PROGRAM INCOME	
8. Earned	$ 0
9. Expended	0
Section III. FEDERAL PARTICIPANT SUMMARY	
10. Total Participants Served	171
a. General Eligibility/Non-custodial Parents Category	125
b. Other Eligibles Category	46

The accompanying notes are an integral part of this statement.

See Independent Auditors' Report.

Notes to the Cumulative Quarterly Financial Status Report

Note 1 – Summary of Significant Accounting Policies

Entity

The U.S. Department of Labor awarded to Private Industry Council SDA-V and Training Plus Foundation, $3,767,968, for a Welfare-to-Work (WtW) Competitive Grant. The grant's original period of performance was October 1, 1999 through April 1, 2002. The grantee voluntarily terminated their grant agreement as of March 15, 2002. The QFSR reports expenditures, income and the number of participants served through March 31, 2002.

Basis of Accounting

The Quarterly Financial Status Report was prepared by the SDA-V and TPF in accordance with the applicable provisions of WtW legislation, regulations, Office of Management and Budget (OMB) Circulars, and specific grant requirements. These provisions generally require that grant income earned or received and expenditures paid or incurred as of the report date, be reported on the QFSR.

Grant expenditures are required to be reported in varying categories such as administrative expenditures, technology/computerization expenditures, program expenditures and as expended per category of participant.

Findings and Recommendations

1. Unallowable Costs

SDA-V & TPF's QFSR included unallowable costs of $521,152.

A. Unsupported Salary Costs

Timesheets were not provided for three employees during the period from October 1, 1999 through July 2001. The cumulative salaries were $118,948, $56,374, and $66,260 and associated fringe benefits totaled $26,336. Two of these three employees were former management of SDA-V & TPF. SDA-V & TPF's personnel manual under the former Director did not require timesheets prior to receipt of a paycheck. After the current Director took charge of SDA-V & TPF on July 16, 2001, a revised personnel manual was instituted that required timesheets for all personnel.

OMB CircularA-122, Attachment B (7)(m) states in part:

> (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. . . .
>
> (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. . . . Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:
>
>> (a) The reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
>>
>> (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
>>
>> (c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

> (d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

Salary costs in aggregate of $267,918 are questioned due to the lack of reports supporting the salaries costs charged to the grant that are required to be maintained by OMB Circular A-122, Attachment B (7)(m).

Grantee Responses

TPF management indicated that one of the three employees did not complete timesheets under direction of the former Executive Director and were told timesheets were not needed for administrative personnel. TPF management indicated it was impossible to support, much less reconstruct, the second and third employee's undocumented salary and fringe costs. TPF management added that the issue of unsupported salary costs could have been avoided had KDHR given technical assistance and oversight to TPF.

SDA-V indicated that KDHR staff had informed TPF staff of the State of Kansas' fiscal policies and procedures manual that required timesheets be maintained on staff hired under the grant.

B. <u>Severance Pay</u>

SDA-V & TPF paid severance pay of $4,089 to five employees in April and May of 2002. These five employees each had less than a year of service. The employee manual permits severance pay only when the employee had a year or more of service. These costs were accrued on the QFSR as of March 31, 2002.

OMB Circular A-122, Attachment B, Section 49(a) states in part, ". . . Costs of severance pay are allowable only to the extent . . . it is required by (i) law, (ii) employer-employee agreement, (iii) established policy . . . or (iv) circumstances of the particular employment."

Severance pay of $4,089 is questioned, as it was not required to be paid by one of the four criteria enumerated in OMB Circular A-122, Attachment B, Section 49(a).

Grantee Responses

TPF management indicated that the grant officer had orally approved the payment of severance pay to specified employees.

SDA-V indicated that TPF had not provided them with a copy of their employee manual, that they had no responsibility in approving draw downs from the grant officer and were unaware of the severance disbursements to employees.

C. <u>Sick Pay</u>

Sick pay of $1,147 for one employee was paid July 11, 2001, for sick leave of approximately 5 days. SDA-V & TPF's personnel manual required that sick leave in excess of 3 days be accompanied by a doctor's letter and no such letter was provided in the employee's personnel or payroll records.

OMB Circular A-122, Attachment A, Section A states in part:

> 2. . . . To be allowable under an award, costs must meet the following general criteria:
>   a. Be reasonable for the performance of the award and be allocable thereto under these principles. . . .
>   g. Be adequately documented. . . .
>
> 4. Allocable costs.
>   a. A cost is allocable to a particular cost objective, . . . in accordance with the relative benefits received. . . .

Sick pay of $1,147 is unallowable as the costs were not adequately documented by the employee as required by the grantee and OMB Circular A-122, Attachment A, Section A.

Grantee Responses

TPF management indicated that it was impossible to support this cost.

SDA-V indicated that without specific knowledge of the TPF employee manual and prior notice of funds drawn down, they were unaware of this transaction.

D. <u>Purchase of Vehicle</u>

In December 2000, SDA-V & TPF paid $1,274 to an automobile dealer on behalf of a participant. The payment, which included $50 in late fees and $50 in repossession fees, represented the balance owed on a vehicle purchased by the participant. The participant subsequently reimbursed SDA-V & TPF a total of $300. During our audit, we were not provided evidence of the existence or possession of the vehicle by the participant or SDA-V & TPF.

The Grant Agreement, Part I, Statement of Work, Paragraph 11, states: "It should be noted that it is the Department of Labor's policy that WtW funds cannot be used to **<u>purchase a car</u>** for use by an individual, nor can WtW funds be used to provide **<u>loans</u>** for purchasing or titling cars for individuals."

The payment made for this vehicle of $974 is unallowable in accordance with the provision of the Grant Agreement.

Grantee Responses

TPF management indicated that approval for purchase of the vehicle was received verbally and by email from the DOL Grant Officer.
The van was repossessed by TPF from the client, who moved and then disappeared. The engine was removed while the van was in storage. The vehicle's current location is unknown, although TPF is in possession of the title, which is in the client's name. Thus, it would be impossible to sell or otherwise dispose of the vehicle. TPF management believes the value of the van, at its best, was approximately $500. Without an engine, the value is approximately $50.

SDA-V indicated that the matter was brought to their attention twice: once as a result of the audit by Joseph Melookaran and once by KDHR. They further stated that it was reported to them that DOL Regional had approved the initial purchase.

E. <u>Undocumented Expenditures</u>

Records to support three payments, totaling $696, were not documented. Receipts or other evidence of the validity of the expense could not be provided and are therefore unallowable. The general ledger reported one payment was made to Office Depot, dated May 11, 2000, for materials and supplies in the amount of $334. Two payments were reimbursements to employees for travel expenses. However, expense reports could not be located. The first expense report would have been for the period January 17, 2002 to February 8, 2002, in the amount of $248 and the second expense report would have been for the period January 26, 2002 to February 8, 2002, in the amount of $114.

SDA-V & TPF entered into a contract for mentoring services with the Area Agency on Aging (AAA). The contract agreement requires AAA to provide monthly logs documenting the services provided to WtW referrals and for AAA to request funds for reimbursement of expenses using forms provided by SDA-V & TPF. Logs documenting the services provided to WtW referrals could not be located in SDA-V & TPF's records. AAA was paid $29,790 for mentoring services for which documentation to support the effort expended was either not required by SDA-V & TPF prior to or not maintained by SDA-V & TPF after payment to AAA.

The $696 in undocumented expenses and $29,790 in unsupported contract payments are unallowable as adequate documentation to support the expenditures was not maintained as required by OMB Circular A-122, Attachment A, Section A (2)(g) which is quoted above.

Grantee Responses

TPF management indicated that they were without knowledge of the undocumented expenditures totaling $334. For travel expenditure reimbursements of $248 and $114, the employees routinely traveled as a part of their positions and, therefore, the undocumented expenditures should be approved. TPF management indicated it was an oversight by prior TPF management not to obtain copies of logs and documentation of AAA expenditures.

SDA-V did not respond to this finding.

F. Attorney Fees

Attorney fees of $800 were claimed on the QFSR for the organization costs of SDA-V & TPF. According to Kansas state records, Training Plus Foundation was incorporated on November 8, 1999. The payment of organization costs after the awarding of a grant, with grant funds, is in violation of OMB Circular A-122, Attachment B (31), which states:

> **Organization costs**. Expenditures, such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the organization, in connection with establishment or reorganization of an organization, are unallowable except with prior approval of the awarding agency.

The $800 paid to an attorney to incorporate the grantee is unallowable.

Attorney fees of $25,000 were claimed on the QFSR for retainer fees. The attorney fees claimed on the QFSR were accrued but not yet paid to the attorney. The Grant Official did not approve the $25,000 claimed on the QFSR and this amount was not reimbursed to SDA-V & TPF.

SDA-V & TPF calculated the amount based on $2,500 per ten employees terminated giving the explanation that the terminated employees could sue and the business insurance policy may not cover the lawsuits. OMB Circular A-122, Attachment B (39), states in part:

> a. Costs of professional and consultant services . . . are allowable . . . when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.
>
> b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant.
> (1) The nature and scope of the service rendered in relation to the service required.
>
> c. In addition to the factors in **subparagraph b**, retainer fees to be allowable must be supported by evidence of bona fide services available or rendered.

The retainer fees of $25,000 have not been paid and are contingent upon future lawsuits being filed, which is uncertain. As such, these costs are unallowable.

Grantee Responses

TPF management indicated that attorney's fees of $800 could not be supported. TPF management indicated that the $25,000 in attorney's fees had not been paid, but were authorized by OMB Circular A-122.

SDA-V indicated that they were unaware that legal fees were requested on behalf of the grant and that TPF reported to the SDA-V that they were incorporated when notified of the grant award.

G. Unverifiable Fixed Assets

SDA-V & TPF did not maintain an adequate inventory system to track assets purchased with WtW funds. An inventory of assets was not maintained in a fashion that made it possible to confirm the existence of assets to the cost records for all assets. As such, the existence of certain assets, paid for with grant funds, could not be established.

SDA-V & TPF's unverifiable fixed assets is $92,588 which was determined by using $303,843 which was reported as total fixed assets on SDA-V & TPF's March 31, 2002, balance sheet and subtracting training modules costing $211,255 which were transferred to KDHR at grant termination.

29 CFR 95.34(f) states in part:

> (1) Equipment records shall be maintained accurately and shall include the following information: (i) A description of the equipment; (ii) Manufacturer's serial number, model number, Federal stock number, national stock number or other identification number; (iii) Source of the equipment, including the award number; (iv) Whether title vests in the recipient or the Federal Government (v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost . . . (vii) Location and condition of the equipment and the date the information was reportable; (viii) Unit acquisition cost; and, (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value.

The existence of fixed assets of $92,588 could not be verified with records required to be maintained in accordance with 29 CFR 95.34 which is quoted above.

Grantee Responses

TPF management indicated that the equipment was available for review and the grant accountant would have helped the auditors reconcile the equipment inventory with the actual inventory.

SDA-V indicated that TPF was notified of the requirement to follow the State of Kansas' fiscal policies and procedures manual from the beginning and copies of the manual were provided to TPF administrators.

H. Procurement

1. Nonessential Purchase

Four training modules pertaining to digital photography, imaging, music, and non-linear video with a cost of $16,100 were among modules purchased by SDA-V & TPF in August 2000. These four training modules did not relate to the purpose of the grant, which is restoring hard to employ welfare-recipients to gainful employment. As the training modules did not relate to the purpose of the grant and no relative benefit was received, as required by OMB Circular A-122, Attachment A, Section A, which is quoted on page 13, $16,100 is unallowable.

Grantee Responses

TPF management indicated that the training modules unrelated to the grant were exchanged with the vendor for credit towards the purchase of other essential modules.

SDA-V indicated that no inventory of any purchase was available to them other than what was in the original grant application.

2. Purchases without Grant Officer Approval

SDA-V & TPF purchased four training modules totaling $31,650, in July 2001. Each training module related to the purpose of the grant and had a unit cost greater than $5,000. The vendor from which the modules were purchased was the same vendor that the SDA-V & TPF had stipulated it would purchase its original training modules from in its original grant proposal. However, the grant proposal did not specify which training modules were to be purchased. After the initial purchase of the training modules, SDA-V & TPF should have requested approval from the Grant Officer to procure these additional training modules. Part IV (2) of the Grant Agreement states: "Awardees must receive ***prior approval*** from the DOL ETA ***Grant Officer*** for the purchase and/or lease of any equipment with ***a per unit acquisition cost of $5,000 or more, and a useful life of more than one year.*** " [Emphasis added.]

Grantee Responses

TPF management indicated that this issue had been thoroughly discussed and resolved to DOL-ETA's satisfaction in response to an interim audit report.

SDA-V reiterated that TPF administrators were provided copies of the State of Kansas' fiscal policies and procedures manual identifying the need to procure bids for purchases. SDA-V also indicated that no inventory of any purchase was available to them other than what was in the original grant application.

3. Purchases were Not Competitively Procured

SDA-V and TPF did not competitively procure training modules totaling $82,050. This amount consists of the four modules, discussed in Finding 2 above, totaling $31,650, and $50,400 for training modules that had a per unit cost of less than $5,000. The purchase of these additional training modules was made approximately one week prior to the change of SDA-V & TPF Directors, which took place on July 16, 2001.

29 CFR 95.43, states in part:

> All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. . . . 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.

Training modules totaling $98,150 are unallowable.

Grantee Responses

TPF management indicated that the purchase of DEPCO modules was specifically outlined in the grant proposal and it was understood that competitive procurement was waived by the prior DOL-ETA grant GOTR or other officials. This matter was also discussed in response to the interim audit report.

SDA-V reiterated that TPF administrators were provided copies of the State of Kansas' fiscal policies and procedures manual identifying the need to procure bids for purchases. SDA-V also indicated that no inventory of any purchase was available to them other than what was in the original grant application.

<u>Summary</u>

In summary, we questioned a total of $521,152 as follows:

Costs Questioned	Amount Questioned
Unsupported Salary Costs	$267,918
Severance Pay	4,089
Sick Pay	1,147
Purchase of Vehicle	974
Undocumented Expenditures	30,486
Claimed Attorney Fees	25,800
Unverifiable Fixed Assets	92,588
Procurement	98,150
Total Questioned Costs	$521,152

Recommendation

We recommend that the Assistant Secretary for Employment and Training recover questioned costs of $521,152.

Auditor's Conclusion

Based on SDA-V and TPF's responses, as described in each subsection above, no new information was provided that would alter or resolve the recommendation. As such, the above recommendation remains unchanged.

2. Noncompliance with Grant Requirements

A. QFSR Was Not Supported by SDA-V & TPF's Financial Records

SDA-V & TPF's financial records were incomplete. The financial records did not accurately reflect the amounts reported on the QFSR. SDA-V & TPF's financial records did not accurately include grant proceeds, revenues, payables or expenditures of subgrantees. No reconciliation was performed between grant proceeds and grant expenditures. As a result, the following occurred:

1. SDA-V & TPF did not reconcile the proceeds received from ETA to the drawdowns requested from ETA or the amounts reported on the QFSR. SDA-V & TPF conveyed their estimated cash requirements to the KDHR based on estimated need. KDHR then drew down funds from DOL for SDA-V & TPF monthly. KDHR drew down a higher amount than SDA-V & TPF requested due to rounding up of expenses. KDHR, via wire transfer, transferred to SDA-V & TPF the amount of funds SDA-V & TPF had requested. As of March 31, 2002, the funds transferred to SDA-V & TPF by KDHR exceeded SDA-V & TPF's expenditures by $11,041.

2. SDA-V & TPF's financial records did not reflect the total grant drawdowns, but instead only reflected the funds transferred from KDHR to SDA-V & TPF. As of March 31, 2002, KDHR had not drawn down $24,012 reported on the QFSR as expenditures under the grant. Additionally, KDHR had incurred expenditures, as a subcontractor, under the grant of $578,577, although only $543,524 was retained by KDHR. Consequently, the amount due to KDHR as of March 31, 2002, under the grant was $35,053, which is comprised of the $24,012 not drawn by KDHR from DOL and the $11,041 in excess funds transferred to SDA-V & TPF. SDA-V & TPF's financial records did not report the funds receivable or payable under the grant. These amounts may have changed subsequent to the end of the audit period of March 31, 2002.

3. SDA-V & TPF's financial records did not support the QFSR as of March 31, 2002. The QFSR included accruals for expenses incurred by SDA-V & TPF as of March 31, 2002, but not paid as of that date. SDA-V & TPF maintained its financial records on the cash basis of accounting; however, the QFSR was reported on the accrual basis of accounting. Adequate records to support the cash to accrual conversion were not maintained. The amounts reported on the QFSR were computed by SDA-V & TPF by adding the expenditures recorded in the financial records through March 31, 2002, to the expenditures in SDA-V & TPF's financial records for the period April 1, 2002, through April 16, 2002.

4. SDA-V & TPF earned interest income of $1,242 during the grant period from October 1, 1999 through March 31, 2002. SDA-V & TPF returned $283 of interest earned in March 2001 to KDHR, leaving $959 of interest income which is payable to KDHR. Additionally, program income was not reported on the QFSR.

B. Inaccurate QFSR Expenditure Allocations

Administrative and Program Costs

SDA-V & TPF's method for allocating costs between administrative and program costs was not supported by adequate documentation. The basis for the allocation of salaries of certain management employees between program and administrative costs from October 1, 1999 through September 30, 2001 was not properly documented by time sheets. SDA-V & TPF employees were required to submit detailed time sheets after October 2001; however, the timesheets were still not utilized to record and allocate costs between program and administrative expenses in SDA-V & TPF's financial records.

20 CFR 645.235 states in part:

> (a)(2) *Competitive grants*. The limitation on expenditures for administrative purposes under WtW competitive grants will be specified in the grant agreement but in no case shall the limitation be more than fifteen percent (15%) of the grant award. . . .
> (d)(2) Personnel and related non-personnel costs of staff who perform both administrative functions specified in paragraph (c) of this section and programmatic services or activities are to be allocated as administrative or program costs to the benefiting cost objectives/categories based on documented distributions of actual time worked or other equitable cost allocation methods.

SDA-V & TPF did not maintain its accounting system or records in a manner which would allow the proper reporting of costs as program or administrative in accordance with 20 CFR 645.235.

Participant Cost Reporting

WtW regulations, as stated below, require program costs be reported separately for the two categories of participants who are served. The two categories are, first, the 70 percent category which is for the general eligibility/noncustodial participants and the second is the 30 percent or other eligibles category as described in 20 CFR 645.211. SDA-V & TPF's method of allocating program costs to the two categories was to multiply the percentage of cumulative, grant-to-date participants as a component of total participants served, from each category by the total program costs.

Additionally, SDA-V & TPF did not obtain from the subgrantee, KDHR, the detail of KDHR's grant expenditures. As such, SDA-V & TPF did not have the necessary information to properly allocate KDHR's program costs as to the category of participants served.

20 CFR 645.211 states in part:

> An operating entity . . . may spend not more than 30 percent of the WTW funds allocated to or awarded to the operating entity to assist individuals who meet the 'other eligibles' eligibility requirements…

The requirement does not apply to the proportion of WtW participants served; rather, as noted above, it applies to the percentage of WtW funds expended on the participants in each category of eligibility. SDA-V & TPF did not maintain its financial records in a manner that would allow the reporting of costs per category of participants.

Summary

Because of the grantee's noncompliance with grant requirements for reporting administrative, program and participant costs, all reported costs are unallowable. Of the total reported costs of $2,658,726, $521,152 was determined unallowable in Finding 1. The remaining reported costs of $2,137,574 are also questionable. Additionally, SDA-V & TPF did not remit program income of $959 to DOL.

Grantee Responses

TPF management indicated that prior TPF management had no experience relevant to the proper administration of this grant. As this fact was well known to the KDHR director, who was contracted to provide technical assistance, oversight and service to the grant as a whole, ultimate responsibility for noncompliance with grant requirements falls on the shoulders of KDHR, its director and employees who were contracted by the grantee to provide technical assistance, oversight, etc.

The prior TPF management did not know, and was completely unaware, that substantially all of the data required to complete an accurate QFSR were being tracked by KDHR. TPF management was hand-calculating the data necessary to complete a QFSR. In some cases, good faith estimates were made to complete line items. TPF management dedicated significant time to completing QFSRs in what they thought to be a correct and accurate fashion.

The prior TPF management did not employ a competent grant accountant or payroll employee. When new TPF management was hired, the replacement grant accountant corrected the records of the first 2 years of the grant.

TPF management responded that the finding, "QFSR Was Not Supported by SDA-V & TPF's Financial Records," does not imply that the final QFSRs were inaccurate.

SDA-V did not respond to this finding.

Recommendation

We recommend that the Assistant Secretary for Employment and Training:

a. ensure that SDA-V & TPF transfer $11,041 to KDHR for excess funds received as of March 31, 2002;

b. ensure that SDA-V & TPF adjusts its financial records to reflect $35,053 due to KDHR in a receivable account as of March 31, 2002; and

c. recover questioned costs of $2,137,574 and $959 in program income.

Auditor's Conclusion

To clarify, the final QFSRs were indeed inaccurate. Attention is directed to the Independent Auditor's Report, Opinion on Quarterly Financial Status Report (QFSR) which indicates that because of the matters identified in the Findings and Recommendations Section of this report, "line 2, Federal Expenditures, of the QFSR does not present fairly, in all material respects, the total allowable incurred costs. . . . We were unable to express an opinion as to the allocation of incurred costs between the functions of programmatic and administrative costs as reported on the QFSR lines 3-5, and the allocation of expenses among the categories of participants served as reported on the QFSR lines 6a and b."

No additional information was provided in the responses to the draft audit report. As such, the recommendations above remain unchanged.

3. Misclassified and Inadequate Documentation of Participants

A. Inadequate Participant Tracking

SDA-V & TPF reported 171 participants served on the March 31, 2002 QFSR (125 as general eligibility/noncustodial parents and 46 as other eligibles). SDA-V & TPF maintained a database of participants served which we compared with the database maintained by KDHR. The SDA-V & TPF database contained 183 participants (125 in the general eligibility/noncustodial parents category and 58 in the other eligibles category), whereas KDHR's database contained a total of 195 participants (128 in the general eligibility/noncustodial parents category and 67 in the other eligibles category).

KDHR's database had 12 participants reported in both categories (general eligibility/ noncustodial parents and other eligibles). Nine should have been reported only in the general eligibility/noncustodial parent's category; thus, reducing the 67 in KDHR's database to 58 participants in the other eligibles category. Three participants should have been reported only in the other eligibles category; thus reducing the 128 in KDHR's database to 125 participants in the general eligibility/noncustodial parent's category.

After considering the above differences, both databases would now equal the same 183 participants served. These adjusted database listings were used as the universe of participants upon which we selected a sample for testing.

B. Misclassified Participants

Two participants were misclassified as to whether they had met the general eligibility/ noncustodial parent's eligibility requirements. However, these two participants did not meet the criteria, as they were not in receipt of welfare benefits for the length of time prescribed.

The regulations at 20 CFR 645.212(a)(1) effective January 1, 2000 state in part that, in order to be eligible under the hard to serve criteria, the individual:

> . . . is currently receiving TANF assistance under a State TANF program, and/or its predecessor program for at least 30 months . . . .

The training costs associated with these two participants could not be determined as noted in finding 2.B.

Based on the corrections to the databases in finding **A** and the misclassifications of participants in finding **B** above, the correct number of participant served should be 123 (125 minus 2) in the general eligibility/noncustodial parents category and 60 (58 plus 2) in other eligibles category for a total of 183 participants served during the life of the grant.

Recommendation

We recommend that the Assistant Secretary for Employment and Training ensure that the QSFR lines 10, 10a and 10b are amended to show the total number of participants served by SDA-V & TPF as of March 31, 2002, to be 183, 123 and 60, respectively.

Grantee Responses

TPF management indicated that TPF case managers throughout the life of the grant did a superb job of participant tracking and classifying potential clients. The case files created, services provided and lives changed far outweighed the minor discrepancies listed in paragraph 3.

SDA-V did not respond to this finding.

Auditor's Conclusion

No new information was provided that would alter or resolve the recommendation. As such, the above recommendation remains unchanged.

Appendix A

Local Workforce Investment Board Area V (formerly Private Industry Council SDA-V)

and

Executive Director of Training Plus Foundation

Responses to Draft Report

Training Plus Foundation

311 West 3rd Street
Pittsburg, Kansas 66762
Telephone: (620) 230-0330 Fax: (620) 230-0333

Robert T. Broadway, Program Director

Mr. Preston Firmin
Regional Inspector General for Audit
U.S. Department of Labor
Office of Inspector General
230 South Dearborn Street
Chicago, IL 60604

RE: Reply to:
Training Plus Foundation - Welfare to Work Financial and Compliance Closeout Audit

Dear Mr. Firmin:

Please accept the following reply to and my observations of the above-referenced document. I apologize for the lateness of this correspondence. As you know, I spent the better part of September and the first part of October out of the office and out of contact.

As of June 15, 2002, my employment with Training Plus Foundation as the Executive Director ended along with the grant accounting specialist. (Employment dates: July 15, 2001 through June 15, 2002.) Additionally, as of June 15, 2002, Training Plus Foundation's existence, as an ongoing legal entity, was also terminated. The company has no ongoing operations, no employees and it's IRS employment identification number has been voided. Therefore, this reply and my observations are mine personally and do not come as a result of any employment relationship or responsibility with Training Plus Foundation. (I use the Training Plus Foundation letterhead at this time merely as a formality and for privacy concerns. It does not imply an employee/employer relationship or any other duty or responsibility.)

Executive Summary:	No Comment
Background:	No Comment
Principal Criteria:	No Comment
Objectives, Scope and Methodology:	No Comment

Independent Auditors' Report:
Paragraph 1, *"Amounts reflected in the QFSR are the responsibility of TPF's management."*

This statement is factually incorrect. The grant was awarded to Training Plus Foundation (TPF) and the Private Industry Council Service Delivery Area V (PIC/SDA-V) in a dual-grantee basis. The PIC/SDA-V's interests were to be protected by a technical assistance, service and accounting contract entered into prior to grant initiation with the Kansas Department of Human Resources SDA-V. Part and parcel to this technical assistance, service and accounting contract was a QFSR accounting, data collection and tracking function.

Despite expenditures of federal dollars well in excess of $200.000.00 for KDHR/SDA-V's technical assistance, data collection and accounting, prior to my employment on July 15, 2001, the management of TPF did not know and was completely unaware that substantially all of the data required to complete an accurate QFSR was being tracked and was readily available six blocks away in the offices of KDHR/SDA-V. Prior to approximately July 30, 2001, TPF management was *hand calculating* the data necessary to complete a QFSR. After interviewing former TPF management, it is my understanding that when necessary, good faith estimates were made to complete line items. Significant time was dedicated by prior TPF management to complete QFSR's in what they thought to be a correct and accurate fashion. Inquiry by me to SDA-V management as to why TPF was never made aware of or presented with KDHR automated accounting data, which was absolutely necessary to complete an accurate QFSR, (and which was being paid for) the reply was:

1. "They never asked."
2. "We didn't think about it."
3. "There must have been a beakdown in communication."

Indeed, TPF did not complete a reasonably accurate QFSR until approximately one month after my employment began. Because the data is cumulative, it became almost impossible to reconcile past QFSR's with actual expenditures, even though TPF retroactively went in and attempted to correct all prior QFSR's once it had access to the KDHR/SDA-V automated accounting data. This process was greatly assisted by the GOTR, DOL representative in Kansas City and for a period of two weeks, daily communication (at a minimum) was necessary. This process was also greatly assisted for the entire time by the KDHR/SDA-V data/accounting manager.

Report on Compliance:
Paragraph 1, "*Compliance with laws, regulations, contracts and grants applicable to TPF is the* responsibility of TPF's management."

This statement is factually incorrect. The grant was awarded to Training Plus Foundation (TPF) and the Private Industry Council Service Delivery Area V (PIC/SDA-V) in a dual-grantee basis. The entities had a joint and combined responsibility. As presented to the PIC/SDA-V in meetings and reports, KDHR/SDA-V was providing, "oversight" of the competitive grant to ensure that compliance with laws, regulations, contracts and grants was occurring. As a former Board Member of the PIC/SDA-V, (until approximately June, 2002) KDHR/SDA-V management assured the PIC/SDA-V that oversight was being performed. (Although KDHR/SDA-V's official position now is that the technical assistance, service and accounting contract did not provide for oversight, despite the plain reading of the words in the contract.)

Findings and Recommendations:
Paragraph A, "*Unsupported Salary Costs*"

Unsupported salaries relate to the original management triad of TPF. Referring to the Confidential Personal Identifier Sheet which lists Finding Numbers, Employee Names and Unsupported Salary Costs, the following can be said about Finding Number 1A:

Employee One (1) on the List:

Immediately after my employment as Executive Director, I conducted a comprehensive investigation into a variety of matters which occurred prior to my employment. It is my impression, after conducting a number of interviews both inside and outside the company, that this employee behaved ethically and responsibly during the course of employment with TPF. Every individual who I interviewed stated that this employee maintained a professional work ethic during the course of employment. This employee resigned as a part of the management triad (leaving a $60,000.00 annual salary) when the employee became aware of management issues which were not being addressed or corrected. It is my personal opinion that this employee's salary costs and fringe benefits should be authorized. It is my impression that this employee relied on the following rational from the former executive director for not completing time sheets, "We are under the administrative line item so it's not necessary."

Employee Two (2) on the List:

This employee, the former executive director, was terminated for cause as the first act of my employment as Executive Director. Unfortunately, it is impossible to support, much less reconstruct, this employee's undocumented salary costs and fringe benefits. Furthermore, it is my understanding that this employee failed to submit time sheets for 1999, 2000 <u>and</u> January - July, 2001, although this is not designated on the Confidential Personal Identifier Sheet.

Employee Three (3) on the List:

Within ninety (90) days of my tenure as Executive Director, this employee was demoted from the management triad to a case manager position, a reduction of salary from $60,000.00 per annum to approximately $24,000.00 per annum At a later date this employee was terminated for cause. Unfortunately, it is impossible to support, much less reconstruct, this employee's undocumented salary costs and fringe benefits.

The issue of unsupported salary costs could have easily been avoided if KDHR/SDA-V had been performing pursuant to their technical assistance and oversight responsibilities as documented in the service and accounting contract. After a thorough investigation and a review of <u>all</u> TPF correspondence, e-mails and faxes, I failed to discover a single letter, note, memorandum, e-mail, fax, in essence, any work product whatsoever from the KDHR/SDA-V director in which any technical assistance or oversight was provided to TPF.

Findings and Recommendations:
Paragraph B, *"Severance Pay"*

The *Summary of Potential Findings*, dated 6/27/02, 11:03 AM, submitted by the TPF grant auditors for Carmichael Brasher Tuvell & Company, states:

> "TPF paid severance to five employees with less than a year of service (names of employees). *They had approval of the grant officer*, but the employee manual permits severance only when the employee had a year of service."

Indeed, the decision to pay severance to the five employees named on the Confidential Personal Identifier Sheet, was made in full view of the DOL grant GOTR and specifically authorized by the Grant Officer. Late notification by DOL of the denial of TPF's grant extension caused tremendous hardship on all TPF employees. When notified of this hardship, the Grant Officer, authorized via telephone, the payment of severance to the specified employees. In my opinion, the authorization of severance to the named employees was morally and legally supportable and significantly aided and furthered the significant DOL interest of a prompt and effective replacement grant turnover.

Findings and Recommendations:
Paragraph C, "*Sick Pay*"

Unfortunately, it is impossible to support this line item which was paid July 11, 2001. Shortly after my employment on July 15, 2001, I terminated the grant accountant who authorized this payment. (Although for unrelated reasons.)

Findings and Recommendations:
Paragraph D, "*Purchase of Vehicle*"

Perhaps a no more convoluted, confused, mixed up and in the end harmless event has ever occurred in the annals of DOL grant making. The details of this episode are well documented in the TPF reply to the Joseph Melookaran, CPA program audit, encompassing October 1, 1999 through December 31, 2001. Two (2) salient issues must be restated herein:

1. TPF received verbal and e-mail approval and confirmation from the DOL grant GOTR prior to the purchase of the vehicle. This fact has been reconfirmed by the present GOTR and by the present auditors and additional details are present in the Melookaran TPF reply.

2. To protect the DOL interest in the property, the van was repossessed by TPF from the client, who had previously moved to Florida and then went missing.. Subsequent to repossession, the van was placed in storage, where it was either vandalized or in some way the engine was removed. The present location of the vehicle could not be confirmed by the present auditors despite being provided with the name and telephone number of the business who was in possession of the vehicle. (The business simply refused to cooperate with the auditors and refused to arrange an opportunity for the auditors, or anyone else for that matter, to inspect the vehicle.) The vehicle's location at present is unknown, although TPF is in possession of the title, which is in the client's name. Thus, it will be impossible for the business to sell or otherwise dispose of the vehicle. The vehicle, at it's best, was valued at approximately Five Hundred Dollars ($500.00). At this date, without an engine, the van's estimated value is approximately Fifty Dollars ($50.00).

Findings and Recommendations:
Paragraph E, "*Undocumented Expenditures*"

I am without any knowledge whatsoever of the undocumented expenditure of $334.00 to Office Depot, dated May 11, 2000, for materials and supplies.

As to the undocumented expenditure of $248.00 for travel reimbursement, the employee to which this refers was stationed in Independence, Kansas and driving almost daily to Coffeyville, Kansas which was also in the employee's service area. Sometimes multiple trips in one day were required. If this undocumented expenditure is compared with documented travel reimbursements for this employee, it will be shown that this undocumented expenditure was reasonable and consistent. Therefore, this undocumented expenditure should be approved.

As to the undocumented expenditure of $113.46 for travel reimbursement, the employee to which this refers was operating in nine counties of southeastern Kansas and driving almost daily to one office or another within the employee's service area. If this undocumented expenditure is compared with documented travel reimbursements for this employee, it will be shown that this undocumented expenditure was reasonable and consistent. Therefore, this undocumented expenditure should be approved.

The Area Agency on Aging (AAA) mentoring services contract was entered into and terminated prior to my employment with TPF. However, after a thorough investigation, it is my impression that TPF felt that it wasn't getting it's full money's worth and wasn't receiving any documentation from AAA, and AAA felt that it wasn't doing anything for the money that it was receiving from TPF. It is my understanding that AAA moved to terminate the contract because of dissatisfaction of both parties. As to logs documenting services provided to TPF, it is presumed that AAA maintained them and has them in their possession. It was apparently an oversight by prior TPF management to obtain copies of logs and documentation.

Findings and Recommendations:
Paragraph F, "*Attorney's Fees*"

Unfortunately, attorney's fees in the amount of $800.00 cannot be supported. After looking into this matter, it is my understanding that the bulk of the $800.00 was spent on nonprofit incorporation and 501(c)(3) document preparation.

Other attorney's fees as noted in this paragraph have not been paid and it is somewhat unusual that the auditors would rule something unallowable before the necessity of payment is even present. Further, OMB Circular A-122 clearly authorizes such payments.

Findings and Recommendations:
Paragraph G, "*Unverified Fixed Assets*"

The auditor's methodology in determining unverified fixed assets is designed to create a discrepancy where in fact no discrepancy exists. From the report:

"TPF's unverifiable fixed assets is $92,588 which was determined by using $303,843 which was reported as total fixed assets on TPF's March 31, 2002 balance sheet and subtracting training modules costing $211,255 which were transferred to KDHR at grant termination."

This approach is of course silly. Ignored in this methodology were dozens of computers, cell phones, printers, desks, office equipment, list continues ad nauseam.

This existence of fixed assets of $92,588 could have been easily confirmed by the auditors by just going to where the equipment was and looking. In fact, they had the replacement grant accountant at their disposal for well over a month, who would have gladly helped them reconcile the equipment inventory with the actual property.

Findings and Recommendations:
Paragraph H, "*Procurement*"

1. Non Essential Purchase

It is vexing to see auditors include items in an audit, which they know, after investigation, is not a viable issue. The purchase of four (4) training modules was originally questioned by Joseph Melookaran during his onsight visit made pursuant to his audit. Per his recommendation, the nonessential modules were exchanged with the vendor outright or for credit towards the purchase of essential modules. The last module being exchanged shortly after my employment began with TPF. Therefore, the $16,100.00 of disallowed expenses does not exist.

2. Purchases without Grant Officer Approval

Again, this issue has been thoroughly discussed and resolved to DOL-ETA's satisfaction in the Melookaran audit reply.

3. Purchases were Not Competitively Procured

Apparently the purchase of DEPCO modules was specifically outlined as a key criteria in the grant proposal and in the grant selection. Therefore, it is my understanding that competitive procurement was waived for DEPCO training modules by the prior DOL-ETA grant GOTR or other officials. This matter was thoroughly discussed as well in the Melookaran audit reply.

Independent Auditors' Report:
Paragraph 2, *"Noncompliance with Grant Requirements"*

Paragraph A, *"QFSR Was Not Supported by TPF's Financial Records"*

Prior TPF management, the management triad as identified in the Confidential Personal Identifier Sheet under Finding Number 1A, had a combined zero (0) years experience in grant administration, business, accounting, business management, grant management, or any other field relevant to the proper administration of this grant. This fact was well known to the KDHR/SDA-V director, who was contracted to provide technical assistance, oversight and service for the grant as a whole. As dual grantees, the PIC/SDA-V and TPF were to rely on the expertise of the KDHR/SDA-V director. The KDHR/SDA-V director is also the DOL program's service provider for the PIC/SDA-V. Thus, ultimate responsibility for noncompliance with grant requirements falls directly on the shoulders of KDHR/SDA-V, it's director and employees who were contracted by PIC/SDA-V and TPF to provide technical assistance, oversight, automated data collection, etc.

As already detailed, prior to my employment on July 15, 2001, the management of TPF did not know and was completely unaware that substantially all of the data required to complete an accurate QFSR was being tracked and was readily available six blocks away in the offices of KDHR/SDA-V. Prior to approximately July 30, 2001, TPF management was *hand calculating* the data necessary to complete a QFSR. After interviewing former TPF management, it is my understanding that when necessary, good faith estimates were made to complete line items. Significant time was dedicated by prior TPF management to complete QFSR's in what they thought to be a correct and accurate fashion.

Additionally, as already detailed, a thorough investigation and a review of all TPF correspondence, e-mails and faxes, failed to discover a single letter, note, memorandum, e-mail, fax, in essence, any work product whatsoever from the KDHR/SDA-V director in which any technical assistance or oversight was provided to TPF.

Initially, and for an undetermined time, the original TPF management triad did not engage the services of a competent grant accountant or payroll employee. This obvious error in judgment could have been immediately corrected if KDHR/SDA-V had provided technical assistance as was contracted.

At an indeterminate time, the original management triad engaged the services of a full-time college student, majoring in psychology, to be the grant accountant. This individual remained in that position for the bulk of the grant prior to my employment, at which time, said individual was terminated.

On or about July 30, 2002, a qualified grant accountant began the process of correcting a two year train wreck. Thus, considering all of the above, the findings in Paragraph A (QFSR Was Not Supported by TPF's Financial Records), is not surprising.

However, the essential question of QFSR accuracy was achieved by the replacement grant accountant. The accountant finding that the QFSR was unsupported does not imply that the final QFSR's were inaccurate. Indeed, it appears from verbal communication, that the auditors were satisfied with the accuracy of the revised TPF QFSR's.

Paragraph B, *"Inaccurate QFSR Expenditure Allocations"*

Fifth paragraph states: "Additionally, TPF did not obtain from the subgrantee, KDHR, the detail of KDHR's grant expenditures. As such, TPF did not have the necessary information to properly allocate KDHR's program costs as to the category of participants served."

See Paragraph A immediately above for an explanation of this oversight.

Inaccurate QFSR expenditure allocations go part and parcel with the lack of technical assistance that the original management triad was receiving from its subgrantee, KDHR/SDA-V.

<u>Independent Auditors' Report</u>:
Paragraph 3, *"Misclassified and Inadequate Documentation of Participants"*

Paragraph A, *"Inadequate Participant Tracking"*
Paragraph B, *"Misclassified Participants"*

TPF case managers throughout the life of the grant did a superb job of participant tracking and classifying potential clients. The casefiles created, services provided and lives changed far outweighs the minor discrepancies listed in paragraph 3.

Thank you for the opportunity to respond to the above-referenced document. If I may provide additional information, please do not hesitate to contact me.

Sincerely,

Robert T. Broadway

Local Workforce Investment Board Area V
State of Kansas

Harold Fankhauser, C.E.O. Chair | Renae Cavaness, Board Vice-Chair

October 2, 2002

Mr. Preston Firmin
Regional Inspector General for Audit
Office of Inspector General
U.S. Department of Labor
230 South Dearborn Street
Chicago, Illinois 60604

Dear Mr. Preston,

Please consider this as a response on behalf of Local Workforce Investment Board Area V, State of Kansas; to the Audit performed on the Welfare to Work competitive Grant awarded to Training Plus Foundation/PIC SDA V.

As you may or may not be aware, the relationship between the Board and Administrators of Training Plus Foundation was very turbulent from the onset of the award. During the negotiations of responsibilities for the grant the Training Plus Administration made it clear from the beginning that the Board had no fiscal responsibilities relating to the delivery of the grant. They indicated that this was an Administrative Entity responsibility and that they were considered the grant Administrative Entity. On many occasions, the Training Plus Administration refused to submit in person reports to the Board, siting that the Board was attempting to micro-manage the grant. With this in mind our response to the findings are as follows:

1. Unsupported Salary Costs: During the start up of the Grant, the Board requested position descriptions for the hiring of staff in general. The Training Plus Administration refused to provide this information to the Board. They indicated that hiring of staff was strictly an administrative duty of the administrative entity, meaning Training Plus. The Board requested that they meet with Kansas Department of Human Resources staff to compare similar position description of formula welfare to work staff. The Board was informed that they did meet with KDHR staff and were informed by KDHR of the State of Kansas fiscal policies and procedures manual. It explicitly quotes the requirement of time sheets to be maintained on staff hired under the grant award. Apparently the TPF management choose to not follow this requirement.

2. **Severance Pay: TPF never provided the Board with a copy of their employee manual. The Board had no responsibility in approving draw downs from the grant officer and was unaware of the severance disbursement to employees.**
3. **Sick Pay: Again without specific knowledge of the TPF employee manual and prior notice of fund draw down the Board was unaware of this transaction.**
4. **Purchase of Vehicle: This was brought to the Board's attention on two occasions. Once during the audit performed by Joseph Melookaran and Associates and once by the Kansas Department of Human Resources. Upon this being questioned, the TPF Administration stated that it had contact D.O.L. Regional Office for clarification. It was reported to the Board that D.O.L. Regional had approved the initial purchase.**
5. **Attorney Fees: The Board was completely unaware that legal fees were being requested on behalf of the grant. TPF reported to the Board that they were incorporated when notified of the grant award.**
6. **Unverifiable Fixed Assets: Training Plus was notified of the requirement to follow the State of Kansas fiscal policies and procedures manual from the very beginning. Complete copies of the manual were given to the TPF Administrators. To our knowledge the modules in question were identified in the original grant application so the purchase of the modules was considered allowable based on the grant approval by D.O.L./E.T.A.**
7. **Procurement: Again we refer to the fact that TPF Administrators were given a copy of the Fiscal Policy and Procedures manual for the State of Kansas identifying the need to procure bids for purchases. No inventory of any purchase was available to the Board other then what was included in the original grant application.**

We appreciate the opportunity to respond to the Audit findings, but believe it is of little value to the actual occurrences for the implementation of the original awarding of the grant. The Board maintained continued frustration in the working relationship of Training Plus Foundation. The Board on a number of occasions reported this frustration to the Regional Department of Labor/E.T.A. in Kansas City. If we can be of any further assistance in this matter, please feel free to contact us at your convenience.

Sincerely,

Renea Cavaness

Renae Cavaness, Vice Chair/Acting Chair
Local Workforce Investment Area V
State of Kansas

cc Harold Fankhauser
LWIB V
file