

U.S. Department of Labor  
Office of Inspector General  
Office of Audit

Performance Audit of  
**Abraham Lincoln Centre**  
Welfare-to-Work Competitive Grant  
For the Period  
October 1, 1999 through December 31, 2001

**Final Report**

Audit Report No. 05-03-002-03-386  
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## **Acronyms**

AFDC	Aid to Families with Dependent Children
ALC	Abraham Lincoln Centre
BTW	Bridge-to-Work (employment and training component of ALC)
CAP	Cost Allocation Plan
CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FTE	Full-time Equivalent
IDHS	Illinois Department of Human Services
MIS	Management Information System
OASAM	Office of Assistant Secretary for Administration and Management
OCD	Office of Cost Determination
OIG	Office of Inspector General
OMB	Office of Management and Budget
POP	Parenting Opportunities Program
QFSR	Quarterly Financial Status Report
TANF	Temporary Assistance for Needy Families
WIA	Workforce Investment Act
WtW	Welfare-to-Work

## **Executive Summary**

The Office of Inspector General (OIG) conducted a performance audit of the Welfare-to-Work (WtW) Competitive Grant awarded to the Abraham Lincoln Centre (ALC). Our audit objectives were to determine the validity of an allegation that staff costs were shifted from other funding sources to ALC's WtW Competitive Grant program by falsifying or altering time records and whether ALC was in compliance with the WtW grant agreement and applicable laws and regulations.

ALC reported costs of \$2,741,253 in support of 800 participants served for the period October 1, 1999 through December 31, 2001. We tested a judgmental sample of staff salaries and fringe benefits, as well as administrative, program, and consultant costs, totaling \$879,142. We tested 50 participants to determine if they met program eligibility requirements. We also reviewed the ALC's compliance with grant requirements and applicable laws and regulations. However, our selective testing was not designed to express an opinion on ALC's Quarterly Financial Status Report (QFSR).

We were unable to conclude that the ALC staff time records were falsified or altered as alleged. However, we found payroll costs charged to the WtW grant included more employees than authorized, were not properly supported by source documentation in accordance with Office of Management and Budget (OMB) Circular A-122, and, in certain cases, were initially accumulated in other programs and then reallocated to the grant.

We also found:

- questioned costs totaling \$1,259,974 consisting of an excess QFSR claim of \$393,952, audit sample results of \$865,594, and ineligible participant expenses of \$428;
- excessive cash drawdowns of at least \$316,587;
- a lack of compliance with grant reporting and allocation requirements;
- no approved Cost Allocation Plan (CAP) for allocating shared program costs;
- weak internal controls within ALC's accounting, payroll, and reporting systems, and
- eight ineligible and six misclassified participants.

We tested 36 percent of ALC's general ledger expenditures charged to the WtW grant and questioned 98 percent of the associated costs. Based upon this high percentage of questioned costs, we believe that the Employment and Training Administration (ETA) should review the remaining costs not tested to ensure these costs have been incurred in accordance with the terms of the grant agreement.

In summary, we recommend that the Assistant Secretary for Employment and Training:

- recover questioned costs of \$1,259,974;
- review the remaining \$1,544,982 (costs not tested) to ensure these costs have been incurred in accordance with the terms of the grant agreement;
- instruct the ALC to implement a time distribution system in accordance with OMB Circular A-122, provide a full accounting of all payroll charged to major ALC funding sources [including two other U.S. Department of Labor (DOL) funding sources], and complete appropriate adjustments;
- restrict further cash drawdowns until ALC properly accounts for the WtW grant expenditures; and
- direct the ALC to:
  - maintain and report accurate financial and participant data on the QFSR, and correct management information system (MIS) inaccuracies,
  - develop a CAP and obtain the approval of DOL's Office of the Assistant Secretary for Administration and Management, Office of Cost Determination (OASAM-OCD),
  - strengthen internal controls within ALC's accounting, payroll, and reporting systems,
  - correct their MIS and QFSR to reflect the ineligible and misclassified participants, and
  - implement procedures to ensure evidence of public assistance and/or insufficient income prior to servicing clients.

ALC generally disagreed with our finding to recover questioned costs and generally agreed to take corrective actions to improve their systems.

Our complete detailed findings and recommendations are contained in the body of the report.

## Background

### Objective of Welfare-to-Work

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 established the Temporary Assistance for Needy Families (TANF) program. The TANF provisions substantially changed the nation's welfare system from one in which cash assistance was provided on an entitlement basis to a system in which the primary focus is on moving welfare recipients to work and promoting family responsibility, accountability and self-sufficiency. This is known as the "work first" objective.

Recognizing that individuals in TANF may need additional assistance to obtain lasting jobs and become self-sufficient, the Balanced Budget Act of 1997 amended certain TANF provisions and provided for WtW grants to states and local communities for transitional employment assistance, which moves hard-to-employ TANF welfare recipients into unsubsidized jobs and economic self-sufficiency.

The Welfare-to-Work and Child Support Amendments of 1999 allow grantees to more effectively serve both long-term welfare recipients and noncustodial parents of low-income children.

Of the \$3 billion budgeted for the WtW program in Fiscal Years 1998 and 1999, \$694 million was awarded through three rounds of competitive grants to local communities.

### ALC's Competitive Grant

On September 30, 1999, ALC received a \$5,000,000 WtW Competitive Grant with a period of performance from October 1, 1999 through June 30, 2002.

The grant's service strategy focuses on building bridges to employment for noncustodial parents by encouraging lifelong learning, and providing 650 participants with job readiness activities, job placement within targeted industries, post-employment training, job retention/support services, and case management services in order to place 450 of the participants into unsubsidized employment. The grant was administered by ALC's Bridge-to-Work (BTW) component and funded the Parenting Opportunities Program (POP).

### Principal Criteria

In addition to the provisions of the Balanced Budget Act of 1997, DOL issued regulations found in 20 CFR 645. Interim Regulations were issued 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.

The ETA administers the WtW program.

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

Postaward Survey

In March 2000, we issued a report on the results of a postaward survey of the ALC. The report identified several issues pertaining to the administration of the grant. We found that ALC had not taken corrective action on the following:

- Develop written policy and procedures for activity (time distribution) reports that will include staff time spent on the cost categories in the grant reporting requirements [See Finding Nos. 1 (page 9) and 3B (page 20)]
- Modify your accounting system or develop a subsidiary system to record and track costs separately for the hard to employ individuals and individuals with long-term welfare dependence characteristics [See Finding No. 3B (page 20)]
- Develop written policies and procedures that fully define administrative costs and ensure that all administrative costs are reported accurately [See Finding No. 3b (page 20)]
- Modify or supplement your cost allocation plan to carry the allocation of shared costs to the 70 percent minimum/30 percent maximum categories of the grant. Your cost allocation plan, including the distribution of indirect costs, should have Federal approval [See Finding No. 4 (page 24)]
- Develop written policies and procedures for recording and tracking the information required on the Cumulative Quarterly Financial Status Report and preparing the report in a timely manner [See Finding Nos. 2A (page 15), 3B (page 20), and 5 (page 27)]

## Objectives, Scope and Methodology

### Objectives

The objectives of this performance audit were to determine the validity of the allegation that staff costs were shifted from other funding sources to ALC's WtW Competitive Grant program by falsifying or altering time records and whether the ALC was in compliance with the WtW grant agreement and applicable laws and regulations.

### Audit Scope and Methodology

Our audit scope was initially October 1, 1999 through September 30, 2001. As a result of a high error rate in testing financial transactions, our scope was extended through December 31, 2001. Our audit included financial and programmatic activities that occurred from October 1, 1999 through December 31, 2001.

### Management Controls

To meet the objectives, we reviewed ALC's management and financial controls over relevant transaction cycles as well as the most recent OMB Circular A-133 Audit Reports. Our work on established management controls included obtaining and reviewing policies and procedures manuals, interviewing key personnel, and reviewing selected transactions to observe controls in place. Our testing related to management controls was focused only on the controls related to our audit objectives of reviewing the reported cost and performance data and was not intended to form an opinion on the adequacy of management controls, and we do not render such an opinion. Weaknesses noted in our testing are discussed in the Findings and Recommendations section of this report.

### Compliance with Laws and Regulations

In order to determine compliance with laws and regulations cited on pages 3 and 4, we performed detailed tests of transactions and tested a sample of participants who were enrolled in the program during our audit period. Our detailed tests of transactions included both analytical review and substantive tests of accounts. Our testing related to compliance with laws and regulations was focused only on the laws and regulations relevant to our audit objectives of reviewing the reported cost and performance data and was not intended to form an opinion on the compliance with laws and regulations as a whole, and we do not render such an opinion. Instances of non-compliance are discussed in the Findings and Recommendations section of this report.



### Sampling

As part of our audit planning, we conducted a vulnerability assessment of the financial management, participant eligibility, and cost allocation to determine if we could limit the audit procedures in any of these areas. As a result of the vulnerability assessment and our review of the ALC books of record and MIS, judgmental sampling was chosen as our sampling methodology. We did not intend our testing to be a representative sample and did not project to the entire universe of financial transactions or participants. In addition, our selective testing was not designed to express an opinion on ALC's QFSR.

Of the \$2,741,253 claimed costs reported on the QFSR as of December 31, 2001, we selected 118 transactions for audit totaling \$879,142. These transactions included staff salaries and fringe benefits, as well as administrative, program, and consultant costs. We also selected 2 credit transactions for audit that reduced payroll expenditures by \$1,020 and \$45,856, respectively.

ALC reported 800 participants on the QFSR as of December 31, 2001. Initial testing of participants revealed that some did not meet the ETA definition of a participant served.<sup>6</sup> The ALC officials subsequently confirmed that 211 of the reported 800 did not meet ETA's definition. Consequently, the adjusted universe of participants served was determined as 589 (800 less 211). Of this adjusted universe of 589 participants, only 11 were served prior to January 1, 2000. We selected a sample of 50 participants – 5 enrolled before January 1, 2000 and 45 enrolled from January 1, 2000 through December 31, 2001. This was necessary because of a change in participant eligibility requirements, effective January 1, 2000.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We conducted fieldwork from January 15 to April 11, 2002, at the offices of ALC.

## Other Matters

Our audit resulted in the discovery of other matters that affect the accounting and oversight of other Federal funds.

### Illinois Department of Human Services (IDHS) Contract with ALC

On October 13, 1999, the IDHS and ALC entered into a placement and retention performance-based contract for servicing IDHS clients at two locations. The contract's period of performance was July 1, 1999 through June 30, 2000. The contract amount was \$1,960,591 and required ALC to service and place clients from six IDHS offices within Chicago and from two IDHS offices in southern suburban Cook County. ALC serviced clients at the BTW main office located at 700 E. Oakwood Boulevard in Chicago, Illinois and at a satellite BTW office located in Harvey, Illinois. While all BTW programs were active at the main office, ALC officials informed us that the only active programs at the Harvey office were funded through the IDHS contract and the WtW Competitive Grant.

Between July and September 1999, IDHS documentation indicates that ALC received \$242,512 in support of this contract. In April 2000, ALC also received \$917,963 from IDHS for a total of \$1,160,475.

In May and June 2000, IDHS amended the contract by extending the period of performance through June 30, 2001 and reducing the total contract amount to \$1,160,475. The amended contract also established deliverables/work off schedules to incur stand-in costs required to achieve the \$1,160,475 received by ALC. However, ALC did not fully meet the deliverables/work off schedules as agreed in the amended contract. As of January 2002, ALC records indicated that they worked off \$933,514 of the amended contract amount. Also in January 2002, IDHS and ALC were negotiating additional work to be performed for the remaining \$226,961 of the amended contract. ALC offered to perform services on behalf of IDHS clients from February through June 2002 to complete the work off balance of the amended contract.

### Other DOL Funding Sources [WtW pass-through funding, Workforce Investment Act (WIA) Adult Services, WIA Youth Services]

ALC is operating programs funded through other DOL funding streams including:

- Chicago Works program, funded by another WtW Competitive grant's pass-through monies administered by the City of Chicago, Mayor's Office of Workforce Development.

- The WIA Adult and Youth Services grant pass-through monies also administered by the City of Chicago, Mayor's Office of Workforce Development.

Single Audit Reports

The Single Audit Report for the years ended June 30, 2000 and June 30, 2001 indicated that ALC had no material internal control weaknesses or compliance findings and the WtW Competitive Grant was considered a major program.

## Findings and Recommendations

### 1. Staff Costs Were Shifted From Other ALC Funding Sources to the WtW Competitive Grant

In July 2001, ETA formally notified the OIG of an allegation from an anonymous source that ALC staff time was being incorrectly reported, recorded, allocated, and shifted to the WtW Competitive Grant through falsification or alteration of time records. We performed fieldwork to determine the merits of the allegation. We were unable to conclude that the time records were falsified or altered as alleged. However, we found grant payroll costs included more employees than authorized, were not properly supported by source documentation in accordance with OMB Circular A-122, and, in some cases, were initially accumulated in other programs and then reallocated to the grant.

OMB Circular A-122, Attachment A requires allowable costs to be reasonable for the performance of the award, be allocable in accordance with the relative benefits received, and be adequately documented. Any cost allocable to a particular award may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or terms of the award. Attachment B.7.m (1) and (2) further defines adequate support of salaries and wages:

*...The distribution of salaries and wages to awards must be supported by personnel activity reports...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...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. Each report must account for the total activity for which employees are compensated ... The reports must be prepared at least monthly and must coincide with one or more pay periods....*

We determined that ALC-BTW was operating six major programs during our audit period and was accumulating costs within the following program codes, respectively:

<b>TABLE 1a</b>			
<b>FUNDING SOURCE</b>	<b>PROGRAM OPERATING</b>	<b>PERIOD OF FUNDING</b>	<b>FUNDING AMOUNT</b>
Illinois Department of Human Services	Placement and retention performance-based contract – south side of Chicago (ALC Program Code 703)	July 1, 1999 through June 30, 2000 - extended thru June 30, 2001	\$509,207
Illinois Department of Human Services	Placement and retention performance-based contract – south suburban Cook County (Harvey)(ALC Program Code 704)	July 1, 1999 through June 30, 2000 - extended thru June 30, 2001	\$651,268
Welfare-to-Work Competitive Grant	Parenting Opportunities Program (ALC Program Codes 705 & 706)	October 1, 1999 through June 30, 2002	\$5,000,000
Mayor’s Office of Workforce Development (DOL Funding)	Workforce Investment Act Adult Services (ALC Program Code 707)	July 1, 2000 through June 30, 2002	\$237,000
Mayor’s Office of Workforce Development (DOL Funding)	Chicago Works - funded by another WtW grant’s pass-through funds (ALC Program Code 708)	June 1, 2000 through Dec. 31, 2002	\$1,227,000
City of Chicago Dept. of Human Services	Service Connector (ALC Program Code 710)	June 1, 2001 through Dec. 31, 2002	\$777,705

As of December 31, 2001, ALC’s general ledger documented total WtW grant expenditures of \$2,425,986 of which payroll costs (\$1,362,030) represented 56 percent of the total. We reviewed 14 payroll-related transactions whose dollar amount represented 51 percent of our audit sample. The 14 selected payroll-related transactions included seven payrolls, five reallocations of expenditures, and two expenditure reduction adjustments (i.e. credit transactions). The audit results are as follows:

**A. Payroll Testing**

The WtW grant budget allowed ALC to fund 32 BTW employees’ salaries: 10 employees in full; 21 employees at 50 percent; and the BTW Executive Director at 10 percent (first line of Table 1b). However, for our sampled pay periods, ALC charged a total of 66 different employees’ salaries to the WtW grant. ALC personnel records indicated that 15 of these employees were hired to work for the Service Connector program and an additional 10 employees were designated to be working solely on other funded BTW programs as of September 2001.

We selected seven payrolls for audit as presented on the next page:

Abraham Lincoln Centre Welfare-to-Work Competitive Grant

TABLE 1b							
Pay Period Ending	Total BTW Employees	Total Employees Charged to the WtW Grant	BTW Employees in Full	Employees In Part	Full-Time Equivalent (FTE)	Total FTEs	FTE Variance from 20.60
<b>Grant Budget (authorized)</b>		<b>32</b>	<b>10</b>	<b>21 at 50 percent= 1 at 10 percent=</b>	<b>10.50 0.10</b>	<b>20.60</b>	<b>N/A</b>
April 30, 2000	26	17 <sup>1</sup>	6	1 at 85 percent= 1 at 75 percent= 1 at 60 percent= 6 at 50 percent= 2 at 40 percent=	0.85 0.75 0.60 3.00 0.80	12.00	<b>(8.60)</b>
April 15, 2001	19	21 <sup>2</sup>	19	1 at 75 percent= 1 at 4 percent=	0.75 0.04	19.79	<b>(0.81)</b>
July 31, 2001	22	22	21	1 at 75 percent=	0.75	21.75	<b>1.15</b>
Sept. 15, 2001	36	34	32	2 at 75 percent=	1.50	33.50	<b>12.90</b>
Sept. 30, 2001	40	40	37	2 at 75 percent= 1 at 55 percent=	1.50 0.55	39.05	<b>18.45</b>
Oct. 31, 2001	42	42	42	0	0	42	<b>21.40</b>
Nov. 30, 2001	48	48	48	0	0	48	<b>27.40</b>

TABLE 1c			
Pay Period Ending	Total BTW Payroll Costs	Total BTW Payroll Costs Charged to the WtW Grant	Percentage of BTW Payroll Costs Charged to the WtW Grant
April 30, 2000	\$ 49,549	\$ 26,049	53 percent
April 15, 2001	29,522	29,522	100 percent
July 31, 2001	30,616	30,303	99 percent
Sept. 15, 2001	48,457	44,937	93 percent
Sept. 30, 2001	53,247	52,570	99 percent
Oct. 31, 2001	60,555	60,555	100 percent
Nov. 30, 2001	70,781	70,781	100 percent
Totals	\$ 342,727	\$ 314,717	92 percent

Although BTW was operating five other programs, the WtW grant was charged approximately 92 percent of the total BTW payroll costs during our sampled pay periods.

We believe the WtW grant was charged more than its fair share of BTW's payroll costs considering the number of active programs and employees specifically identified with those projects. We attempted to review the employees' personnel activity reports to determine reasonableness of the labor hours charged to the grant. However, ALC Finance and BTW officials stated that employees did not complete after-the-fact personnel activity reports (i.e. time distribution sheets) in accordance with OMB Circular A-122, notwithstanding our March 2000 recommendation.

<sup>1</sup> One employee partially charged to the grant worked in the ALC Finance Office, and not in BTW

<sup>2</sup> Two employees partially charged to the grant worked in the ALC Finance office, and not in BTW

As a result, we are unable to determine whether the employees charged to the grant actually worked on grant activities. Therefore, we question all \$314,717 of payroll expenditures for the seven pay periods we tested (See Table 1c on page 11 and Exhibit A, Section D on page 38).

**B. Reallocations of Expenditures**

We selected the following five reallocations of payroll expenditures charged to the WtW grant for audit:

<b>TABLE 1d</b>					
<b>Date</b>	<b>Description</b>	<b>Originating Program Code</b>	<b>Charged WtW Program Code</b>	<b>Questioned Cost</b>	<b>Ref. Page</b>
November 30, 1999	Unsupported Journal Entry	IDHS Program Code 703	705	\$ 37,793 <sup>1</sup>	33
November 30, 1999	Unsupported Journal Entry	IDHS Program Code 703	705	36,594 <sup>1</sup>	33
June 30, 2000	Inadequate Documentation for Payroll Allocation	WtW Program Code 705	706 <sup>2</sup>	46,369 <sup>1</sup>	38
July 30, 2000	Other Program Costs	IDHS Program Code 704	705	13,426 <sup>1</sup>	38
September 28, 2000	Other Program Costs	IDHS Program Code 704	705	1,863 <sup>1</sup>	38
<b>Totals for Reallocations</b>				<b>\$ 136,045</b>	
September 28, 2000	Related Non-sampled Questioned Costs	IDHS Program Code 703	705	\$ 1,862 <sup>1</sup>	

For the November 1999 reallocations, ALC officials could not provide source documentation to support the expenditures. Instead, they could only provide an unsupported journal entry.

For the June 2000 reallocation, we were not provided any source documentation to support the expenditure. We were not provided the basis for allocation to program code 706 (for “other eligibles” costs), how the pool of personnel costs was calculated prior to allocation, or where the individual personnel costs within this pool originated (direct charge to program code 705 and/or reallocations from other program sources).

For the July 2000 reallocation, payroll costs were initially accumulated in IDHS program code 704 and then reallocated to the grant. ALC officials could not provide source documentation to support the reallocation to the WtW grant.

<sup>1</sup> The questioned cost for each item can be traced to Exhibit A and is summarized in Table 2a on page 16.

<sup>2</sup> WtW program code established for tracking 30% costs attributable for serving “other eligibles” participants.

For the September 2000 reallocation, the expense was the result of a former employee's legal settlement with ALC. This cost was originally allocated to the WtW grant (at 50 percent) and to both IDHS program codes 703 and 704 (25 percent to each code). Our sampled reallocation resulted from ALC transferring the cost of this legal settlement initially charged in program code 704 to the WtW grant. Further, we determined that ALC not only reallocated the sampled expense but also reallocated the associated expense initially charged in program code 703 to the WtW program. We question both the sampled reallocation (\$1,863) and an additional \$1,862 for the associated expense reallocated from program code 703 as indicated in Finding No. 2 [see Table 2b on page 16; Exhibit A, Section F (page 38); and Exhibit A, Summary (page 42)].

### **C. Expenditure Reduction Credits**

We selected two payroll credit transactions for audit. Both credits transferred accumulated WtW payroll expenditures to other funding sources. However, ALC was unable to provide the audit trail as to the basis for the credits or the originating documentation supporting the credits. 29 CFR 95.21(b)(7) requires ALC's accounting records to be supported by source documentation.

### **Recommendation**

We recommend that the Assistant Secretary for Employment and Training instruct the ALC to:

- a. implement a time distribution system in accordance with OMB Circular A-122, and
- b. provide a full accounting of all payroll charged to major ALC funding sources (including two other DOL funding sources) and complete appropriate adjustments.

### **ALC's Response**

ALC disagrees that staff costs were shifted from other ALC funding sources to the WtW Competitive Grant. ALC incurred costs to operate the DOL WtW Competitive grant that were fairly presented in accordance with Generally Accepted Accounting Principles and were audited in accordance with Generally Accepted Auditing Standards and Government Auditing Standards.

ALC recognizes that they can improve their systems. By January 2003, ALC will design and implement a time distribution system in accordance with OMB Circular A-122 and



29 CFR 95. ALC will also provide a full accounting of all payroll charged to major funding sources and complete appropriate adjustments. Additional cost to DOL may occur as a result of this process.

**OIG's Conclusion**

We applaud ALC's effort to design and implement a time distribution system in accordance with OMB Circular A-122 and 29 CFR 95. However, ALC did not provide any documentation to change our finding that the grant payroll costs included more employees than authorized, were not properly supported by source documentation in accordance with OMB Circular A-122, and in some cases, were initially accumulated in other programs and then reallocated to the grant.

Therefore, we consider the finding unresolved and our recommendations remain unchanged.

## 2. Questioned Costs

We question \$1,259,974 or 46 percent of the \$2,741,253 claimed by ALC. The questioned costs include an over-reporting of expenditures on the QFSR (\$393,952); unsupported, inadequately supported, and unallowable costs (\$865,594); and costs associated with ineligible participants (\$428) as documented in Finding No. 6.

### A. QFSR Expenditures Overstated

The ALC submitted a QFSR, dated February 25, 2002, claiming \$2,741,253 of grant expenditures through December 31, 2001. For the same period, ALC's general ledger documented cumulative grant expenditures of \$2,425,986. Consequently, the QFSR expenditures were overstated by \$315,267.

29 CFR 95.21(b)(1) states:

*Recipients' financial management systems shall provide ... Accurate, current and complete disclosure of financial results of each federally-sponsored project or program in accordance with the reporting requirements...; and (7) adds: Accounting records including cost accounting records that are supported by source documentation.*

ALC officials were unable to provide the cause of this excessive claim, but did indicate that they do not have a complete understanding of ALC's automated accounting system due to recent staff turnover. The over-reporting of expenditures circumvents ETA's ability to prevent excessive cash drawdowns.

In response to the Draft Report, ALC submitted a revised general ledger for the period October 1 through December 31, 2001. The general ledger's expenditures were reduced by \$78,685. Consequently, cumulative grant expenditures for the audit period were \$2,347,301. Therefore, the QFSR expenditures were overstated by an additional \$78,685, or \$393,952 in total.

### B. Audit Results of Financial Sample

We selected 120 transactions for audit totaling \$879,142, or 36 percent of cumulative grant expenditures (\$2,425,986) as documented in the ALC general ledger (as of January 2002). Our audit disclosed that 95 percent of the sampled transactions resulted in inadequately supported and/or unallowable costs totaling \$863,732, or 98 percent of sampled costs. We also question an additional \$1,862 related to a personnel transaction in our sample for total

questioned costs of \$865,594. Based upon this high percentage of questioned costs, we believe that ETA should review the remaining costs not tested to ensure these costs have been incurred in accordance with the terms of the grant agreement.

The results of our audit are presented in Tables 2a and 2b below:

Description	Payroll (p)/ Fringe Benefits (f)		Direct Program/ Participant		Consultant/ Contracting		Administration <sup>1</sup>		Totals	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
No supporting documentation	1	\$ 4,173 (f)	3	\$ 9,190			10	\$ 31,983	14	\$ 45,346
Unsupported journal entries	4	4,868 (f) 74,387 (p)	1	7,464	3	\$ 17,696	13	144,551	21	248,966
Inadequate documentation/ Excessive cost		422 (f)	5	17,209	7	32,156	20	62,766	32	112,553
Inadequate documentation for pay periods	7	314,717 (p)							7	314,717
Inadequate documentation / Payroll Allocation	1	46,369 (p)							1	46,369
Other Program Costs	2	473 (f) 15,289 (p)	4	8,352	4	11,795	2	8,797	12	44,706
Shared Costs Not Allocated		1,391 (f)	5	23,122	3	4,538	11	22,024	19	51,075
Transactions With Multiple Errors and/or Allowed Costs <sup>2</sup>	2		3				1		6	
Credit Transactions	2								2	
Transactions and Amount Questioned	19	\$ 11,327 (f) \$450,762 (p)	21	\$ 65,337	17	\$ 66,185	57	\$ 270,121	114	\$ 863,732
Allowed Transactions / Costs		1,080 (f)	3	6,191			3	8,139	6	15,410
<b>GRAND TOTALS FOR SAMPLE</b>	<b>19</b>	<b>\$ 12,407 (f) \$450,762 (p)</b>	<b>24</b>	<b>\$ 71,528</b>	<b>17</b>	<b>\$ 66,185</b>	<b>60</b>	<b>\$ 278,260</b>	<b>120</b>	<b>\$ 879,142</b>

Amount Questioned in Sample (from above)	<b>\$ 863,732</b>
Related Non-sampled Questioned Costs --relates to Sample Item No. 42 (see pp. 38 and 42)	<b>1,862</b>
<b>Total Questioned Costs – Results Of Financial Sample</b>	<b>\$ 865,594</b>

<sup>1</sup> The ALC did not track program or administrative costs in their accounting system (see Finding No. 3B). Consequently, we categorized transactions into the appropriate category for attribute testing based upon the type of cost encountered in the general ledger and/or by review of the source documentation. For certain transactions, we were unable to determine the exact cost classification category for testing and categorized these transactions within Administration.

<sup>2</sup> The costs associated with each type of error are already included in each error description above.

We determined that 114 transactions were not in compliance with 29 CFR 95, OMB Circular A-122, or ALC's accounting policies and procedures (see Exhibit A for details). Therefore, we question \$865,594.

**C. Ineligible Participants**

We question \$428 of direct transportation costs associated with servicing eight participants considered ineligible in Finding No. 6. ALC's participant MIS indicated that \$428 of transportation costs were provided on behalf of the eight participants. However, it was not possible to trace the transportation costs by participant through the ALC accounting system.

**Recommendation**

We recommend that the Assistant Secretary for Employment and Training:

- a. recover \$1,259,974 of questioned costs resulting from:
  - an over-reporting of expenditures on the QFSR (\$393,952),
  - inadequately supported and unallowable costs found in the audit sample of the ALC financial transactions charged to the grant (\$865,594), and
  - transportation costs in support of 8 ineligible participants (\$428) as presented in Finding No. 6, and
- b. review the remaining \$1,544,982 (costs not tested) to ensure these costs have been incurred in accordance with the terms of the grant agreement.

**ALC's Response**

**A. QFSR Expenditures Overstated**

ALC did not over-report expenditures of \$315,677 (\$315,267) on the QFSR. Expenditures reported on the QFSR are in agreement with general ledger expenditures as follows on the next page:

Expenditure Item	Time Period	Costs
General Ledger	Three months ending 12/31/01	\$698,533
General Ledger	Three months ending 9/30/01	315,957
Independent Financial Audit	Year ending 6/30/01	910,685
Independent Financial Audit	Year ending 6/30/00	816,207
Total		\$2,741,253 <sup>1</sup>

#### B. Audit Results of Financial Sample

ALC strongly disagrees with the questioned costs. All costs were incurred to support the program operations and were valid and properly charged. ALC is dismayed that DOL contemplates the disallowance of these costs. Prior audits by City, State, and other independent auditors validate ALC's costs.

ALC provided documentation for 24 previously unsupported sampled items.

#### C. Ineligible Participants

ALC concurs that seven of eight participants were ineligible. ALC obtained evidence from the Non-custodial Parent unit and IDHS system to render one client fully eligible at time of enrollment. This participant incurred \$5 of transportation costs. Consequently, questioned costs should be reduced to \$423.

### **OIG's Conclusion**

#### A. QFSR Expenditures Overstated

To address ALC's response, we requested a detailed general ledger listing of expenditures for the three months ending December 31, 2001 in support of ALC's \$698,533 claim in their response. ALC provided the requested general ledger listing, dated December 13, 2002, that documented expenditures at \$303,830, not \$698,533.

ALC stated the discrepancy is the result of different system parameters selected at the time the original report was generated.

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<sup>1</sup> Total is actually \$2,741,382

Using the December 13, 2002 general ledger listing for the three months ending December 31, 2001, we determined that ALC over-reported expenditures by \$393,952. The \$2,347,301 of expenditures per ALC's general ledger is calculated below:

General Ledger Program Code	Time Period	Documented Expenditures
705	July 1, 1999 – June 30, 2000	\$710,233
706	July 1, 1999 – June 30, 2000	105,974
705	July 1, 2000 – June 30, 2001	911,307
705	July 1, 2001 – September 30, 2001	315,957
705	October 1, 2001 – December 31, 2001	303,830
Total Expenditures Documented in ALC's General Ledger		\$2,347,301

#### B. Audit Results of Financial Sample

Our review of the documentation provided by ALC resulted in a \$6,083 reduction of questioned costs and the modification of 21 sampled item exceptions from no supporting documentation to other categories of questioned cost (i.e. inadequate documentation, other program expense, etc.). The changes have been incorporated within this report.

It was noted that 95 percent of the sampled transactions were not in compliance with 29 CFR 95, OMB Circular A-122, or ALC's accounting policies and procedures.

#### C. Ineligible Participants

Until ETA can confirm one participant's eligibility, all eight participants remain ineligible.

Therefore, our recommendations remain unchanged.

### 3. Non-compliance With Grant Requirements

ALC did not always comply with grant requirements regarding cash management and QFSR reporting.

#### A. Cash Management Procedures Are Not Adequate

ALC obtained  
\$316,587 of excess  
cash from the grant

ALC obtained excessive cash from the grant as compared to booked expenditures. As of December 31, 2001, ALC's QFSR reported expenditures were \$2,741,253 while ALC's revised general ledger documented cumulative grant expenditures of \$2,347,301. ALC had accumulated cash drawdowns of \$2,663,888 from the grant through December 31, 2001. We concluded that ALC had obtained at least \$316,587 (\$2,663,888 less \$2,347,301) of excess cash as of December 31, 2001.

29 CFR 95.22 (a) states:

*Payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks...by the recipients.... (b)(2) states ...Cash advances to the recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.*

ALC obtained the excess cash prior to an existing bona fide need to meet grant related disbursements. We found a general pattern that ALC would transfer cash from the bank account established for BTW to the ALC operating and payroll accounts of another bank. We also determined that all BTW revenues, in addition to the WtW Competitive Grant, were processed through the bank account established for WtW. Therefore, the individual cash balances of each BTW funding source lose their identity through the process of transferring funds to ALC's operations and payroll accounts of the other ALC bank.

#### B. QFSR Detail Line Items Are Not Supported

QFSR detail line items  
do not reconcile to  
general ledger or MIS

We were unable to reconcile WtW expenditure line item categories as reported on the December 31, 2001 QFSR to ALC's financial records. These line items included 70 percent and 30 percent expenditures, and administrative versus program expenditures.

20 CFR 645.211 states:

*. . . may spend not more than 30 percent of the WtW funds allotted to or awarded to the operating entity to assist individuals who meet the Aother eligibles@eligibility requirements . . . The remaining funds allotted to or awarded to the operating entity are to be spent to benefit individuals who meet the Ageneral eligibility@and/or Anoncustodial parents@eligibility requirements . . .*

20 CFR 645.235(a)(2) states:

*. . . 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.*

The ALC has not incorporated the QFSR expenditure reporting requirements into the accounting system nor has ALC staff maintained an audit trail from reported QFSR line items to source documentation. Furthermore, the ALC staff was unable to document which expenditures in the general ledger were associated with 70 percent and 30 percent expenditures, or with administrative versus program expenditures (Our March 2000 report recommended these changes). As a result, it was not possible to reconcile any QFSR detail line item expenditures to the financial records. The breakdown of expenditures is important because of regulatory limitations on costs.

It should be disclosed that the ALC staff began utilizing a time sheet to track hours worked in support of the QFSR line item categories immediately after our audit period.

The reporting of Participants Served on the QFSR was also incorrect.

20 CFR 645.240(d) *Participant reports*, states:

*Each grant recipient must submit participant reports to the Department. Participant data must be aggregate data, and, for most data elements, must be cumulative. . . .*

The ALC reported 800 participants served on the December 31, 2001 QFSR (567 as 70 percent and 233 as 30 percent). The ALC's MIS included 800 participants that applied for the WtW program through December 31, 2001. Initial testing revealed that some of these did not meet the ETA definition of Aparticipant served.@ The ALC officials subsequently confirmed that 211 of the reported 800 did not meet ETA's definition. Of the remaining 589 (800 less 211) "participants served," 397 were designated as 70 percent, and 192 were designated as 30 percent.



Inaccurate programmatic reporting affects ALC's ability to accurately track QFSR line item category costs in accordance with a CAP and affects ETA's ability to properly exercise its stewardship responsibility over the WtW program.

### **Recommendation**

We recommend that the Assistant Secretary for Employment and Training:

- a. restrict further cash drawdowns until ALC properly accounts for the WtW grant expenditures, and
- b. direct ALC to maintain and report accurate participant and financial data on the QFSR, and correct MIS inaccuracies.

### **ALC's Response**

#### **A. Cash Management Procedures Are Not Adequate**

DOL's audit did not question the effectiveness of the program services provided. Furthermore, the achievement of program services provided was obtained at a cost consistent with the average placement cost of \$11,976. Accomplishments have been recognized by DOL by an extension of the grant through September 30, 2004.

Cash drawdown restrictions will severely hamper the delivery of services. ALC fully plans to continue to properly account for WtW grant expenditures and we do not believe that drawdowns should be suspended. This program cannot continue without reimbursement for expenses.

#### **B. QFSR Detail Line Items Are Not Supported**

ALC conducted an internal review of 50 client files in response to the OIG's audit. ALC will document and implement procedures for QFSR reporting to ensure that participant financial data is correct.

### **OIG's Conclusion**

#### **A. Cash Management Procedures Are Not Adequate**

ALC's comments regarding the effectiveness of program services are not germane to the issue of excess cash balances. ALC documented expenditures for the third and fourth

quarters of 2001 were \$315,957 and \$303,830 respectively (see page 19). However, ALC has a cash balance of \$316,587 as of December 31, 2001. We believe that maintaining a cash balance to meet the cash requirements for a three-month period does not meet the intent of 29 CFR 95.22 (a). Therefore, our recommendation remains unchanged.

**B. QFSR Detail Line Items Are Not Supported**

We consider ALC's response sufficient to resolve this finding. However, the finding will not be closed until documentation is provided to confirm that ALC's accounting system and MIS support financial and participant data as reported on the QFSR.

#### 4. Incomplete Cost Allocation Plan

The ALC is composed of several operating components including Administration, Child Development Services, Special Education and Mental Health, Residential Services, Social Work, Economic Development, and Employment and Training. The ALC Employment and Training component is commonly known as BTW. During our audit period, BTW was funded by several agencies in addition to the WtW Competitive Grant.

The Grant Agreement, Part IV, Special Clause No. 2 requires all awardees receiving funds from multiple funding sources to complete this section requiring the inclusion of an approved CAP and/or an Indirect Cost Rate. ALC did not maintain an approved CAP or obtain an indirect cost rate as recommended in our March 2000 report.

29 CFR 95.21(b)(6) states:

*Recipients' financial management systems shall provide...written procedures for determining the reasonableness, allocability and allowability of costs in accordance with...Federal cost principles and the terms and conditions of the award.*

Because ALC did not maintain an approved CAP, we identified 21 transactions in our sample that were unallowable as a result of ALC:

- direct charging the WtW program code for shared ALC agency costs,
- direct charging the WtW program code for costs benefiting all BTW programs, or
- allocating costs to multiple ALC funding sources but only to the WtW program code within BTW.

As of March 28, 2002, ALC officials provided the OIG with a “draft” CAP. However, the CAP had not been submitted to or approved by DOL’s OCD.

#### **Recommendation**

We recommend that the Assistant Secretary for Employment and Training direct ALC to:

- a. develop a CAP and obtain the approval of DOL’s OASAM-OCD to ensure that ALC can properly report expenditures in accordance with the QFSR line item requirements, and
- b. adjust previously-applied shared costs charged to the WtW program code to all funding sources which also benefited from the expenditure.

**ALC's Response**

In November 2002, ALC met with DOL's Regional Cost Negotiator for review of ALC's CAP. ALC will incorporate all recommendations and submit the CAP to DOL's OASAM-OCD for approval.

ALC's CAP defines the allocation methodology for shared costs. ALC will review all previously applied shared costs charged to the WtW program and will reallocate costs to all funding sources. Identified adjustments in this process may result in additional costs to the WtW Competitive Grant.

**OIG's Conclusion**

We consider ALC's response sufficient to resolve both recommendations. However, the recommendations will not be closed until ETA has confirmed the approved CAP is fully implemented within the ALC accounting system and appropriate adjustments have occurred.

## 5. Internal Controls Need To Be Strengthened

Internal control weaknesses in ALC's accounting, payroll and reporting systems

Several internal control weaknesses were discovered during our audit that may have contributed to and compounded other findings. A sound system of internal control includes complete documentation, policies and procedures, segregation of duties, as well as supervisory review and approval.

29 CFR 95.21(b)(2)(3) and (7) state:

*Recipients' financial management systems shall provide ... Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards,...assets, outlays...; Effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such assets and assure that they are used solely for authorized purposes....; and Accounting records including cost accounting records that are supported by source documentation.*

We found that ALC did not maintain source documentation to support accounting entries, processed check requests directly through accounting staff, had no QFSR reporting system, did not maintain time sheets for every employee, paid employees for non-work periods, and did not properly account for grant drawdowns.

### A. Missing source documentation

ALC could not provide source documentation for 31 percent of the financial sample that represents \$294,309 of questioned costs. The high error rate establishes an increased risk of the ALC accounting system being unreliable.

### B. Check requests processed directly through or not documented by accounting staff

Of the 71 transactions involving complete check requests, we determined 45 percent lacked acceptable segregation of duties (see Exhibit A). In most cases, the check requests were simply processed by the accounting clerk without any documented oversight/approval of BTW officials or other ALC Finance staff. We also found three check requests also lacked the initials of the accounting clerk who processed the request and three other check requests were partially obliterated. This high error rate establishes an increased risk of the ALC accounting system being unreliable.

**C. No QFSR reporting system**

ALC had not established a formal system for the preparation and subsequent documentation of the QFSR submitted to ETA for this grant. Instead, the ALC Finance official responsible for obtaining and submitting the QFSR data to ETA informed us that programmatic data is obtained from BTW and current quarter expenditures are added to the previous QFSR's line item totals for preparation of the current QFSR.

**D. Salaries paid do not reconcile with employees time worked**

For the pay period ending April 15, 2001, we found three employees' payroll time sheets did not reconcile to paid salary. One employee's time sheet documented one workday as leave without pay. Another employee's time sheet documented two workdays as suspension. The third employee's time sheet documented two workdays as leave without pay. However, all three employees received full pay. For the pay period ending July 31, 2001, we found another employee's time sheet did not reconcile to the paid salary. The employee's time sheet documented three workdays with no activity but the employee received full pay. We questioned the associated payroll costs for these staff in Finding No. 2.

**E. Grant drawdowns cannot be traced to ALC's accounting records**

We were unable to trace 78 percent of tested grant drawdowns to the appropriate cash account in the ALC books of record for the grant. Further, we were unable to trace 14 percent of drawdowns to the revenue account established for the WtW Competitive Grant. As a result, the grant's cash loses its identity within the BTW component of ALC and becomes co-mingled with BTW's other funding source revenue.

**Recommendation**

We recommend that the Assistant Secretary for Employment and Training require ALC to strengthen financial management internal controls by:

- a. maintaining source documentation for all accounting transactions,
- b. obtaining appropriate programmatic and financial approval prior to processing check requests,
- c. formalizing QFSR reporting policies to ensure that adequate financial and programmatic information is maintained and QFSRs are reviewed prior to submission to ETA,

- d. ensuring salaries charged to the grant are supported by employees' time worked, and
- e. posting grant drawdowns in the appropriate accounting system program accounts to promptly and accurately maintain an audit trail of grant assets.

### **ALC's Response**

#### **A. Missing source documentation**

ALC's Accounting Policies and Procedures manual requires that source documentation shall be maintained for all transactions. ALC shall ensure compliance with this policy.

#### **B. Check requests processed directly through or not documented by accounting staff**

ALC has an effective system of internal controls in place. Our policy includes appropriate programmatic and financial approval prior to the processing of checks and the organizational hierarchy has built-in system checks.

#### **C. No QFSR reporting system**

ALC will develop a formal policy for QFSR reporting by January 30, 2003.

#### **D. Salaries paid do not reconcile with employees time worked**

ALC will implement a revised time distribution system for staff time by February 2003. Time sheets will track staff hours worked in support of the QFSR line item categories. Direct labor personnel will be required to complete a time sheet by activity, and ALC will seek consultation on the development of an indirect cost rate. The indirect cost rate will be utilized to allocate salaries for administrative staff.

#### **E. Grant drawdowns cannot be traced to ALC's accounting records**

The ALC accounting system allows ALC to maintain an audit trail of grant funds and related expenses to the appropriate program code. The general ledger is used as a mechanism to track all grant drawdowns. Program codes are established for all funding sources that are used to record all funds and disbursements.

**OIG's Conclusion**

A. Missing source documentation

While ALC responded that they have a policy that requires source documentation be maintained, our audit testing shows a lack of compliance with this policy. ALC was unable to provide source documentation for 31 percent of the financial sample that represents \$294,312 of questioned costs. This high error rate establishes an increased risk of the ALC accounting system being unreliable.

Recommendation A. remains unresolved.

B. Check requests processed directly through or not documented by accounting staff

While ALC responded that they have a policy that includes appropriate programmatic and financial approvals for check processing, our audit testing shows a lack of compliance with this policy. We found that 45 percent of check requests lacked acceptable segregation of duties. This high error rate establishes an increased risk of the ALC accounting system being unreliable.

Recommendation B. remains unresolved.

C. No QFSR reporting system

Recommendation C. is resolved, but not closed, until ETA confirms the corrective action.

D. Salaries paid do not reconcile with employees time worked

Recommendation D. is resolved, but not closed, until ETA confirms the corrective action.

E. Grant drawdowns cannot be traced to ALC's accounting records

While ALC responded that they maintain an audit trail of grant funds and related expenses to the appropriate program code through the general ledger, we were unable to trace 78 percent of tested grant drawdowns to the appropriate cash account in the ALC books of record for the grant. We were also unable to trace 14 percent of these drawdowns to the revenue account established for the WtW Competitive Grant.

Recommendation E. remains unresolved.



## 6. Inadequate Participant Eligibility and Documentation

We judgmentally selected a sample of 50 participants from the adjusted universe of 589 participants served for participant eligibility testing. The sample was divided into two groups based upon the eligibility determination date. We determined that 5 of the sampled participants enrolled before January 1, 2000, and the remaining 45 enrolled from January 1, 2000 through December 31, 2001. This was necessary because WtW eligibility requirements changed as of January 1, 2000. Our eligibility testing revealed eight ineligible and six misclassified participants were served in BTW's WtW program.

### A. Ineligible Participants

8 ineligible participants resulted in questioned costs of \$428
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Of the 50 participants in our sample, 8 were considered ineligible for WtW based on insufficient, incomplete, or undocumented public assistance information and/or undocumented participant income as of the eligibility determination date.

20 CFR 645.212(a) and (b) (dated November 18, 1997) state:

*An individual is eligible to be served under the 70 percent provision if...The individual is receiving TANF assistance; and...Has received assistance under the State TANF program, and/or its predecessor program, for at least 30 months...A noncustodial parent of a minor is eligible to participate under the 70 percent provision if the custodial parent meets the eligibility requirements...*

20 CFR Part 645.212(c) (dated January 11, 2001) states:

*An individual may be served under this provision if...(S)he is a noncustodial parent of a minor child if...At least one of the following applies: (i) The minor child, or the custodial parent of the minor child, meets the long-term recipient of TANF requirements...(ii) The minor child is receiving or is eligible for TANF benefits and services; (iii) The minor child received TANF benefits and services during the preceding year; or (iv) The minor child is receiving or is eligible for assistance under the Food Stamp program, the Supplemental Security Income program, Medicaid, or the Children's Health Insurance Program...*

20 CFR 645.213 (a) and (c) (dated January 11, 2001) state:

*Any individual may be served under this provision if (s)he...Is currently receiving TANF assistance...Is a custodial parent with income below 100 percent of the poverty line...*

Of the eight considered ineligible, seven were enrolled in WtW as noncustodial parents. However, the participants' files did not have the proper documentation verifying the custodial parent's or his/her child(ren)'s public assistance eligibility. The noncustodial parents also did not meet the requirements for other WtW eligibility categories.

The remaining ineligible was enrolled in WtW as a custodial parent with income below the poverty line. However, the participant's file did not provide proof of income or TANF eligibility.

Since ALC did not have necessary documentation in all participants' files, we consider the eight participants to be ineligible. ALC's MIS indicates \$428 of direct transportation services was provided on behalf of the participants considered ineligible. We question the \$428 of direct transportation services in Finding No. 2.

#### **B. Misclassified Participants**

6 misclassified  
participants

Our eligibility testing also disclosed six participants who were considered improperly classified in the WTW program. One participant was classified as *hard-to-employ noncustodial* (70%) enrolled before January 1, 2000; and five participants were classified as *primary eligibles* (70%) enrolled after January 1, 2000. The misclassified *hard-to-employ* participant file did not include evidence that the custodial parent had received TANF and/or Aid to Families with Dependent Children (AFDC) for 30 months or more at the time of WtW enrollment. The misclassified *primary eligibles* included four custodial parent files that did not include evidence that they had received TANF and/or AFDC for 30 months or more at the time of WTW enrollment. The remaining *primary eligible* was listed as a primary noncustodial but the file included evidence of custodial parent with income below the poverty line. We determined that all six participants met the respective 30 percent criteria and should have been classified accordingly.

The misclassifications by ALC overstated the 70 percent category and understated the 30 percent category. The improper classification of participants also can affect the QFSR reporting process when reporting the QFSR individual line item expenditures. We believe the misclassifications occurred because the ALC staff did not obtain documentation of

public assistance prior to servicing clients. ALC's MIS indicates \$437 of direct transportation services were provided on behalf of the participants considered misclassified. We consider these costs as misclassified because it was not possible to trace the transportation costs by participant through the ALC accounting system.

**Recommendation:**

We recommend that the Assistant Secretary for Employment and Training direct the ALC to:

- a. transfer \$437 from the 70 percent to the 30 percent category expenditure accounts for the six misclassified participants,
- b. correct their MIS and QFSR to reflect the eight ineligible participants and the six misclassified participants, and
- c. implement procedures to ensure evidence of public assistance and/or insufficient income prior to servicing clients.

**ALC's Response**

ALC concurs that seven of eight participants were ineligible. ALC obtained evidence from the Non-Custodial parent unit and IDHS system to render one participant fully eligible at time of enrollment.

ALC concurs that the six participants were misclassified. All participants have been reclassified to the 30 percent eligibility category and the corresponding costs will be accordingly adjusted.

ALC implemented recommendations of several program enhancements to ensure all clients are eligible and appropriately classified before they are serviced. ALC requests a completed 2151 form from IDHS verifying length of time on TANF prior to enrollment and non-custodial parent applicants are sent to the Non-custodial Parent unit for verification prior to enrollment. Simultaneously, ALC staff verifies evidence of public assistance for the dependent child through the IDHS system. This evidence is placed in the client's folder.

**OIG's Conclusion**

We consider this finding resolved, but not closed, until ETA confirms ALC's corrective actions and one participant's eligibility documentation from IDHS. ALC did not provide the IDHS eligibility evidence for the participant in their response.

**Exhibit A**

**FINANCIAL SAMPLE RESULTS  
114 TRANSACTIONS WITH EXCEPTIONS  
OCTOBER 1, 1999 THROUGH DECEMBER 31, 2001**

<u>Sample No.</u>	<u>Date</u>	<u>Program Code &amp; G/L Account</u>	<u>Transaction Description</u>	<u>Amount Questioned</u>	<u>Audit Determination</u>	<u>Originating Program Code / or Vendor</u>
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<b>Section A -- No Supporting Documentation</b>						
43	3/6/01	705 - 5021	Fringe Benefit - March 2001 Insurance	4,173	no supporting documentation	Humana
Fringe Benefits Subtotal				\$ 4,173		
57	4/18/01	705 - 5309	88001646/April 01	1,090	no supporting documentation	CIT Group
66	7/30/00	705 - 5556	BTW Participant Uniforms	2,202	no supporting documentation	Advance
67	8/29/00	705 - 5556	BTW Participant Farecards	5,880	no supporting documentation	Chicago Transit Authority
partial 95	9/20/01	705 - 5757	Petty Cash - BTW Office Operations for \$500	18	no supporting documentation	Employee No. 1
Direct Program / Participant Subtotal				\$ 9,190		
13	3/17/00	705 - 5052	Staffing Services	4,779	no supporting documentation	CCB Services
18	2/29/00	705 - 5052	Reallocation from BTW	5,485	no supporting documentation	Unknown
22	3/24/00	705 - 5061	8.4 GB Ultra ATA/66	1,037	no supporting documentation	Insight
25	3/31/00	705 - 5091	Nextel Account 5495786-5	4,828	no supporting documentation	Nextel Communications
31	3/23/00	705 - 5303	Travel Expense Reimbursement	318	no supporting documentation	Employee No. 2
45	7/30/00	705 - 5052	Staffing Services for BTW	3,653	no supporting documentation	CCB Services
46	11/17/00	705 - 5052	Staffing Services	3,579	no supporting documentation	CCB Services
65	7/30/00	705 - 5551	Invoice No. 672 Camp Shaw-waw-nas-see	4,640	no supporting documentation	Northeastern Illinois University
89	7/15/01	705 - 5301	092-206-077 / June 2001 Telephone	1,743	no supporting documentation	Ameritech
112	11/5/01	705 - 5090	773-451-1300-336 Phone Exp.	1,921	no supporting documentation	Ameritech
Administration Subtotal				\$ 31,983		
<b>TOTAL - NO SUPPORTING DOCUMENTATION</b>				<b>\$ 45,346</b>		

<b>Section B -- Unsupported Journal Entries</b>						
6	12/31/99	705 - 5021	Reallocation of BTW December 99 Federal Expense	\$ 1,967	unsupported journal entry	703
8	12/31/99	705 - 5022	Reallocation of BTW December 99 Federal Expense	2,901	unsupported journal entry	703
Fringe Benefits Subtotal				\$ 4,868		
1	11/30/99	705 - 5011	Payroll Reallocation of Expense	37,793	unsupported journal entry	703
2	11/30/99	705 - 5011	Payroll Reallocation of BTW	36,594	unsupported journal entry	703
Payroll Subtotal				\$ 74,387		

Abraham Lincoln Centre Welfare-to-Work Competitive Grant

<u>Sample No.</u>	<u>Date</u>	<u>Program Code &amp; G/L Account</u>	<u>Transaction Description</u>	<u>Amount Questioned</u>	<u>Audit Determination</u>	<u>Originating Program Code / or Vendor</u>
partial 61	7/31/00	705 - 5351	To charge correct program - reallocation of \$8,268 -- Computer Equipment and Software	1,878	unsupported journal entry	704
103	2/28/01	705 - 5055	Corrections to Allocations for BTW	5,586	unsupported journal entry	703
Direct Program / Participant Subtotal				\$ 7,464		
78	8/3/01	705 - 5052	Services Rendered to BTW Program	1,875	unsupported journal entry indicates voided check	Consultant No. 1
96	6/30/00	705 - 5052	Reclassify exp. recorded in dhs	11,650	unsupported journal entry	703
102	7/31/00	705 - 5052	To charge correct program	4,171	unsupported journal entry	703
Consulting / Contracting Subtotal				\$ 17,696		
9	6/30/00	705 - 5042	Reclassify exp. recorded in dhs	6,797	unsupported journal entry	703
21	6/30/00	705 - 5061	Reclassify exp. recorded in dhs	8,323	unsupported journal entry	703
23	11/30/99	705 - 5090	Reallocation of expense	7,077	unsupported journal entry	703
24	6/30/00	705 - 5090	Reclassify exp. recorded in dhs	18,860	unsupported journal entry	703
26	6/30/00	705 - 5091	Reclassify exp. recorded in dhs	11,493	unsupported journal entry	703
27	6/30/00	705 - 5201	Reclassify exp. recorded in dhs	14,400	unsupported journal entry	703
29	6/30/00	705 - 5251	Reclassify exp. recorded in dhs	7,153	unsupported journal entry	703
30	11/30/99	705 - 5301	Reallocation of BTW Fed Exp.	1,107	unsupported journal entry	703
33	11/30/99	705 - 5351	Reallocation of expense	9,109	unsupported journal entry	703
34	11/30/99	705 - 5351	Reallocation of BTW Fed Exp.	3,220	unsupported journal entry	703
35	6/30/00	705 - 5351	Reclassify exp. recorded in dhs	44,057	unsupported journal entry	703
98	11/30/99	705 - 5061	Reallocation of expense	9,920	unsupported journal entry	703
101	6/30/01	705 - 5033	To recognize worker's comp. expense 10/00-06/01	3,035	unsupported journal entry	100
Administration Subtotal				\$ 144,551		
<b>TOTAL - UNSUPPORTED JOURNAL ENTRIES</b>				<b>\$ 248,966</b>		

<b>Section C -- Inadequate Documentation / Excessive Costs</b>						
partial 7	5/3/00	705 - 5021	Fringe Benefit - May Insurance	422	Employee No. 3 not included on invoice	Humana
Fringe Benefits Subtotal				\$ 422		
20	3/31/00	705 - 5056	OJT Invoice No. 40555	1,924	No contract or times sheets to support the rates or hours billed	CCB Services
59	11/15/00	705 - 5351	Computer Equipment Lease	\$ 3,288	no lease agreement and included \$299 of late charges <sup>1</sup>	Old Kent Leasing
partial 61	7/31/00	705 - 5351	To charge correct program - reallocation of \$8,268 -- Computer Equipment and Software	2,989	no lease agreement	Old Kent Leasing

1 Item represents one of 32 transactions that lacked adequate segregation of duties on check request

Abraham Lincoln Centre Welfare-to-Work Competitive Grant

Sample No.	Date	Program Code & G/L Account	Transaction Description	Amount Questioned	Audit Determination	Originating Program Code / or Vendor
partial 92	7/25/01	705 - 5351	Computer Equipment and Software Lease - Total Charge of \$3,798	127	unreasonable late charge	Marlin Leasing Corporation
100	4/19/00	705 - 5556	Farecards for BTW Participants	5,620	CTA receipt/invoice did not match tested transaction – provided receipt was dated March 31, 2000	Chicago Transit Authority
115	12/19/01	705 - 5304	BTW Farecards for DOL and Chicago Works participants – total cost of \$1,750	625	no invoice	Chicago Transit Authority
117	11/15/01	705 - 5351	Computer Equipment / Software Lease – 0013914 – 001/003	2,636	no invoice <sup>1</sup>	Marlin Leasing Corporation
Direct Program / Participant Subtotal				\$ 17,209		
10	3/31/00	705 - 5042	March 2000 Services	619	Contract not provided to support rates billed – unable to reconcile billing to amount charged to WtW <sup>1</sup>	Consultant No. 2
17	2/7/00	705 - 5052	Payment for Services Rendered	20,000	Contract not provided to support nature and extent of the services rendered – unable to reconcile documentation provided	Partec
47	12/30/00	705 - 5052	BTW Consultant	1,800	no invoice	Consultant No. 3
75	9/20/01	705 - 5052	BTW Training and Development Consultant	937	no consultant contract and no approved CAP to support 50 percent allocation to WtW and Chicago Works <sup>1</sup>	Consultant No. 1
77	7/6/01	705 - 5052	BTW Retainer for Communication and Marketing	2,000	no invoice - no approved CAP - benefits multiple BTW funding sources - direct charged to WtW	Consultant No. 4
97	5/31/00	705 - 5052	BTW Consultant - Jan. & Feb.	5,000	Contract not provided to support billing amount and terms	Partec
110	12/13/01	705 - 5052	Payment for Services Rendered	1,800	no invoice <sup>1</sup>	Consultant No. 3
Consulting / Contracting Subtotal				\$ 32,156		
11	3/17/00	705 - 5052	Staffing Services	1,480	Contract not provided to support rates billed	CCB Services
12	3/17/00	705 - 5052	Payment for Staffing	2,338	Contract not provided to support rates billed	CCB Services
14	4/30/00	705 - 5052	Invoice No. 40469	4,779	Contract not provided to support rates billed	CCB Services
28	4/25/00	705 - 5251	Business Portfolios for BTW Participants	2,020	Unable to determine nature of purchased items or user of items	Thank You Products
36	3/17/00	705 - 5453	BTW Staff Training	9,551	Itemized invoice not provided – appears to be excessive charge	Marriott's Lincolnshire Resort
37	4/28/00	705 - 5453	Seminar & Staff Development	20,384	All hotel costs (less meeting room rental and supplies) after February 17, 2000 (last date of ETA WtW conference) as well as excessive hotel room expenses (Presidential Suite, room upgrades, phone calls, and multiple banquet expenses including 30 and 27 rooms for February 18-19, 2000)	Doubletree Hotel – Minneapolis Airport at the Mall

<sup>1</sup> Item represents one of 32 transactions that lacked adequate segregation of duties on check request

Abraham Lincoln Centre Welfare-to-Work Competitive Grant

<u>Sample No.</u>	<u>Date</u>	<u>Program Code &amp; G/L Account</u>	<u>Transaction Description</u>	<u>Amount Questioned</u>	<u>Audit Determination</u>	<u>Originating Program Code / or Vendor</u>
54	4/25/01	705 - 5091	Cell Phone Expense 03130093 January 2001	2,145	unreasonable costs (including one phone's monthly bill of \$1,507 and 9 inactive phones, other phones assigned to previous employees of BTW, excessive calls and charges) - no approved CAP - benefits multiple funding sources - allocated to multiple ALC funding sources but only to WtW within BTW - unable to reconcile to source documentation <sup>1</sup>	Cingular Wireless
60	5/14/01	705 - 5351	Furniture Lease Buy Out on Contract	1,800	no invoice or negotiated instrument from the vendor for \$1,800, no contractual instrument to support 1,800, direct charged to WtW but appears to benefit multiple ALC and/or BTW funding sources <sup>1</sup>	First Priority Leasing
68	5/31/01	705 - 5751	CPA Membership Fees	203	no invoice and costs allocated to multiple ALC funding sources but to only WtW within BTW	Illinois CPA Society
81	9/21/01	705 - 5081	BTW Luncheon	800	unreasonable cost at \$40 per guest - direct charged to WtW - appears to benefit other BTW funding sources <sup>1</sup>	Vendor No. 1
83	9/20/01	705 - 5090	BTW Telephone Line Installation	776	no invoice	Connectivity Systems
84	8/15/01	705 - 5091	Cellular Phones -- August 2001 Total Charge of \$2,228	1,989	unreasonable costs (including one phone's monthly bill of \$1,345 and 11 inactive phones, other phones assigned to previous employees of BTW, excessive calls and charges) - no approved CAP - benefits multiple funding sources - allocated to multiple ALC funding sources but only to WtW within BTW - unable to reconcile to source documentation <sup>1</sup>	Cingular Wireless
85	7/9/01	705 - 5091	Cellular Phones -- July 2001 Total Charge of \$1,984	1,760	unreasonable costs (including one phone's monthly bill of \$1,243 and 11 inactive phones, other phones assigned to previous employees of BTW, excessive calls and charges) - no approved CAP - benefits multiple funding sources - allocated to multiple ALC funding sources but only to WtW within BTW <sup>1</sup>	Cingular Wireless

<sup>1</sup> Item represents one of 32 transactions that lacked adequate segregation of duties on check request

Abraham Lincoln Centre Welfare-to-Work Competitive Grant

<u>Sample No.</u>	<u>Date</u>	<u>Program Code &amp; G/L Account</u>	<u>Transaction Description</u>	<u>Amount Questioned</u>	<u>Audit Determination</u>	<u>Originating Program Code / or Vendor</u>
88	8/10/01	705 - 5251	BTW Business Cards	250	no verification of payment - cost appears to benefit multiple BTW funding sources	Hall & Son
99	2/16/00	705 - 5305	Plane Tickets	2,850	Five ALC employees arrived in Minneapolis after ETA WtW conference ended on February 17, 2000. Four additional employees/consultants did not have documented stays at the Minneapolis hotel. We were unable to confirm the nature of the travel to Washington DC for another ALC employee.	C.P. Louie Travel Services, Inc.
111	10/9/01	705 - 5081	BTW Luncheon	1,750	unreasonable cost at \$35 per guest - direct charged to WtW - appears to benefit other BTW funding sources <sup>1</sup>	Vendor No. 1
113	11/28/01	705 - 5091	Cell Phone Expense of \$1,301	1,148	Unreasonable costs (including one phone's monthly bill of \$814 and 11 inactive phones, other phones assigned to previous employees of BTW, excessive calls and charges) - no approved CAP - benefits multiple funding sources -allocated to multiple ALC funding sources but only to WtW within BTW <sup>1</sup>	Cingular Wireless
partial 116	10/11/01	705 - 5351	Copier / Printer Lease for \$3,833 001-0025285-006, 007,....	31	late charge	Canon Financial Services
118	12/11/01	705 - 5551	Entertainment – Christmas party	750	unallowable entertainment cost and not allocated to all ALC funding sources but direct charged to WtW <sup>1</sup>	Vendor No. 2
119	11/14/01	705 - 5757	ALC Christmas party December 20, 2001	5,362	Unreasonable costs for 200 guests - if the cost was considered as benefiting employee morale, the cost would benefit all ALC funding sources, but the cost was direct charged to WtW <sup>1</sup>	Honeysuckles of Chicago
120	11/14/01	705 - 5757	Reimbursement for Party Decorations, DJ – ALC Xmas	600	unallowable entertainment cost and not allocated to all ALC funding sources but direct charged to WtW	Employee No. 4
Administration Subtotal				\$ 62,766		
<b>TOTAL - INADEQUATE DOCUMENTATION / EXCESSIVE COSTS</b>				<b>\$ 112,553</b>		

<sup>1</sup> Item represents one of 32 transactions that lacked adequate segregation of duties on check request



Abraham Lincoln Centre Welfare-to-Work Competitive Grant

Sample No.	Date	Program Code & G/L Account	Transaction Description	Amount Questioned	Audit Determination	Originating Program Code / or Vendor
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Section D -- Inadequate Documentation for Pay Periods						
3	4/29/00	705 - 5011	Payroll April 30, 2000	\$ 26,049	no personnel activity reports	not applicable
40	4/30/01	705 - 5011	Payroll April 15, 2001	29,522	no personnel activity reports	not applicable
70	7/30/01	705 - 5011	Payroll July 31, 2001	30,303	no personnel activity reports	not applicable
71	9/20/01	705 - 5011	Payroll September 15, 2001	44,937	no personnel activity reports	not applicable
72	9/30/01	705 - 5011	Payroll September 30, 2001	52,570	no personnel activity reports	not applicable
106	11/29/01	705 - 5011	Payroll November 30, 2001	70,781	no personnel activity reports	not applicable
107	10/30/01	705 - 5011	Payroll October 31, 2001	60,555	no personnel activity reports	not applicable
<b>TOTAL - INADEQUATE DOCUMENTATION FOR PAY PERIODS</b>				<b>\$ 314,717</b>		

Section E -- Inadequate Documentation / Payroll Allocation						
4	6/30/00	706 - 5011	Allocation to 30%	46,369	no personnel activity reports, no allocation basis, no audit trail to cost pool, etc.	not applicable
<b>TOTAL - INADEQUATE DOCUMENTATION FOR PAYROLL ALLOCATION</b>				<b>\$ 46,369</b>		

Section F -- Other Program Costs						
Partial 73	9/1/01	705 - 5021	September 2001 Insurance Cost of \$2,335	473	other program expense -- employees assigned to Chicago Works	Humana
Fringe Benefits Subtotal				\$ 473		
41	7/30/00	705 - 5011	Charge Correct Program	13,426	other program expense	704
42	9/28/00	705 - 5014	Charge Correct Program	1,863	other program expense	704
Payroll Subtotal				\$ 15,289		
38	5/31/00	705 - 5556	BTW Farecards	2,940	other program expense	703 - Chicago Transit Authority
49	2/28/01	705 - 5053	Corrections for Allocations for BTW	740	other program expense	703
50	8/30/00	705 - 5054	To charge correct program	1,176	other program expense <sup>1</sup>	709 - IDHS Earnfare
52	5/31/01	705 - 5056	Fee for BTW Client Training and Placements	3,245	other program expense	703
partial 95	9/20/01	705 - 5757	Petty Cash - BTW Operations for \$500	251	other program expense for Chicago Works clients	Employee No. 1
Direct Program / Participant Subtotal				\$ 8,352		
15	1/24/00	705 - 5052	BTW116 Consultant	4,385	other program expense for IDHS program	703 - MidAmerica
16	1/24/00	705 - 5052	BTW117 Consultant	4,385	other program expense for IDHS program	703 - MidAmerica

1 Item represents one of 32 transactions that lacked adequate segregation of duties on check request

Abraham Lincoln Centre Welfare-to-Work Competitive Grant

Sample No.	Date	Program Code & G/L Account	Transaction Description	Amount Questioned	Audit Determination	Originating Program Code / or Vendor
76	7/20/01	705 - 5052	Fee for Consulting Services - BTW Recruitment	850	other program expense -- benefits Chicago Works program	Consultant No. 5
109	12/7/01	705 - 5052	Consultant for IDHS TANF Training	2,175	other program expense -- IDHS program	Consultant No. 1
Consulting / Contracting Subtotal				\$ 11,795		
51	5/31/01	705 - 5055	BTW Training Materials	2,244	other program expense	708
104	3/9/01	705 - 5061	WIA Project for BTW-Supplies	6,553	Computer hardware for WIA project, no invoice was provided	707 - CDW
Administration Subtotal				\$ 8,797		
<b>TOTAL - OTHER PROGRAM COSTS</b>				<b>\$ 44,706</b>		

Section G -- Shared Costs Not Properly Allocated						
partial 7	5/3/00	705 - 5021	Fringe Benefit - May Insurance	\$ 609	no approved CAP -- benefits multiple BTW funding sources	Humana
partial 73	9/1/01	705 - 5021	September 2001 Insurance Cost of \$2,335	782	no approved CAP -- benefits multiple BTW funding sources -- direct charged to WtW	Humana
Fringe Benefits Subtotal				\$ 1,391		
58	6/27/01	705 - 5351	Software	3,671	no approved CAP -- benefits multiple funding sources - direct charged to WtW	Marlin Leasing Corporation
partial 61	7/31/00	705 - 5351	To charge correct program - reallocation of \$8,268 -- Computer Equipment and Software	3,401	no approved CAP -- benefits multiple BTW funding sources -- direct charged to WtW	Marlin Leasing Corporation
62	11/7/00	705 - 5352	Renewal of Smartnet Services	8,190	no approved CAP -- benefits multiple BTW funding sources -- direct charged to WtW	KidSmart Software Company
90	8/30/01	705 - 5309	Participant Bus Lease 88001646-001 August 2001	1,090	no approved CAP -- benefits multiple BTW funding sources -- direct charged to WtW <sup>1</sup>	CIT Group
91	9/30/01	705 - 5351	Computer System Lease 646174 September 2001	2,989	no approved CAP -- benefits multiple BTW funding sources -- direct charged to WtW <sup>1</sup>	Heller Financial Leasing Company
partial 92	7/25/01	705 - 5351	Computer Equipment and Software Lease - Total Charge of \$3,798 -- 001314-001-003	3,671	no approved CAP -- benefits multiple BTW funding sources -- direct charged to WtW	Marlin Leasing Corporation
94	7/13/01	705 - 5352	City Sticker for Participant Bus	110	no approved CAP -- benefits multiple BTW funding sources -- direct charged to WtW <sup>1</sup>	City of Chicago
Direct Program / Participant Subtotal				\$ 23,122		

<sup>1</sup> Item represents one of 32 transactions that lacked adequate segregation of duties on check request

Abraham Lincoln Centre Welfare-to-Work Competitive Grant

<u>Sample No.</u>	<u>Date</u>	<u>Program Code &amp; G/L Account</u>	<u>Transaction Description</u>	<u>Amount Questioned</u>	<u>Audit Determination</u>	<u>Originating Program Code / or Vendor</u>
44	12/30/00	705 - 5042	Consultant Pay-December 2000	1,842	no approved CAP – benefits multiple funding sources - allocated to multiple ALC funding sources but only to WtW within BTW - unable to reconcile to source documentation	Consultant No. 2
48	12/30/00	705 - 5052	BTW Consultant	2,000	no approved CAP – benefits multiple BTW funding sources – direct charged to WtW	Consultant No. 4
74	7/2/01	705 - 5042	Computer Analyst June 2001	696	no approved CAP – benefits multiple funding sources - allocated to multiple ALC funding sources but only to WtW within BTW - unable to reconcile to source documentation <sup>1</sup>	Consultant No. 2
Consulting / Contracting Subtotal				\$ 4,538		
32	2/16/00	705 - 5306	Repairs for BTW Bus	1,741	no approved CAP – benefits multiple BTW funding sources – direct charged to WtW	Blitz Body Company
53	2/28/01	705 - 5081	Beverages 286359-5 February 2001	230	no approved CAP – benefits multiple funding sources - direct charged to WtW <sup>1</sup>	Hinckley & Schmitt
55	8/30/00	705 - 5091	Cell Phone Expense Account: 0005495786-5	4,299	no approved CAP – benefits multiple funding sources - allocated to multiple ALC funding sources but only to WtW within BTW - unable to reconcile to source documentation <sup>1</sup>	Nextel Communications
64	8/29/00	705 - 5453	CPE Internet Seminar Training	\$ 195	no approved CAP – benefits multiple ALC funding sources - direct charged to WtW	Pro 2 Net
69	6/30/01	705 - 5753	Truck Rental and Window Replacement -- BTW Harvey Relocation	667	no approved CAP – benefits multiple BTW funding sources - direct charged to WtW <sup>1</sup>	Employee No. 5
80	9/14/01	705 - 5067	BTW Contractual Fees for Temporary Receptionist	579	no approved CAP – benefits multiple BTW funding sources - direct charged to WtW <sup>1</sup>	Spherion Corporation
82	7/6/01	705 - 5090	Phone Expense BTW June 2001 1-708-331-4460-035-8	1,484	no approved CAP – benefits multiple BTW funding sources - direct charged to WtW <sup>1</sup>	Ameritech
86	7/25/01	705 - 5201	BTW Facilities Rent August 2001	2,500	no approved CAP – benefits multiple BTW funding sources - direct charged to WtW <sup>1</sup>	Northeastern Illinois University
87	9/1/01	705 - 5201	BTW Facilities Rent September 2001	2,500	no approved CAP – benefits multiple BTW funding sources - direct charged to WtW <sup>1</sup>	Northeastern Illinois University

<sup>1</sup> Item represents one of 32 transactions that lacked adequate segregation of duties on check request

Abraham Lincoln Centre Welfare-to-Work Competitive Grant

Sample No.	Date	Program Code & G/L Account	Transaction Description	Amount Questioned	Audit Determination	Originating Program Code / or Vendor
108	11/30/01	705 - 5042	IT Support – Accounting Software	1,527	no approved CAP – benefits multiple ALC funding sources - direct charged to WtW	Automated Solutions
114	10/31/01	705 - 5052	Rent / Phone for November 2001	2,500	no approved CAP – benefits multiple BTW funding sources - direct charged to WtW	Northeastern Illinois University
partial 116	10/11/01	705 - 5351	Copier / Printer Lease for \$3,833	3,802	no approved CAP – benefits multiple BTW funding sources - allocated to multiple ALC funding sources but only to WtW within BTW	Canon Financial Services
Administration Subtotal				\$ 22,024		
<b>TOTAL - SHARED COSTS NOT PROPERLY ALLOCATED</b>				<b>\$ 51,075</b>		

Section H -- Transactions with Multiple Errors						
7	5/3/00	705-5021	May 2000 Insurance Cost of \$1,031	See Inadequate Documentation / Excessive Costs and Shared Costs Not Properly Allocated <sup>1</sup>		
61	7/31/00	705 - 5351	To charge correct program - reallocation of \$8,268 -- Computer Equipment and Software	See Unsupported Journal Entries, Inadequate Documentation / Excessive Costs, and Shared Costs Not Properly Allocated		
73	9/1/01	705 - 5021	September 2001 Insurance Cost of \$2,335	See Other Program Costs and Shared Costs Not Properly Allocated		
92	7/25/01	705 - 5351	Computer Equipment and Software Lease - Total Charge of \$3,798	See Inadequate Documentation / Excessive Costs and Shared Costs Not Properly Allocated <sup>1</sup>		
95	9/20/01	705 - 5757	Petty Cash - BTW Operations for \$500	See No Supporting Documentation and Other Program Costs <sup>1</sup>		
116	10/11/01	705 - 5351	Copier / Printer Lease for \$3,833	See Inadequate Documentation / Excessive Costs and Shared Costs Not Properly Allocated <sup>1</sup>		

5	6/30/00	706 - 5011	adjust expenses to proper program (credit of \$1,020)
39	6/30/01	705 - 5010	Year End Journal Entries (credit of \$45,856)

56	10/23/00	705 - 5305	Plane Tickets – 3783-680942-820 <sup>1</sup>
79	8/28/01	705 - 5061	Office Supplies <sup>1</sup>

Overall Summary	Amount Questioned
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<sup>1</sup> Item represents one of 32 transactions that lacked adequate segregation of duties on check request

<b>Overall Summary</b>	<b>Amount Questioned</b>
<b>TOTAL QUESTIONED COST – QFSR OVERSTATEMENT – FINDING 2a</b>	<b>\$ 393,952</b>
Total – No Supporting Documentation	45,346
Total – Unsupported Journal Entries	248,966
Total – Inadequate Documentation / Excessive Cost	112,553
Total – Inadequate Documentation for Pay Periods	314,717
Total – Inadequate Documentation for Payroll Allocation	46,369
Total – Other Program Costs	44,706
Total – Shared Costs Not Properly Allocated	51,075
<b>AMOUNT QUESTIONED – TOTAL FOR SAMPLE</b>	<b>\$ 863,732</b>
<b>Related Non-sampled Questioned Cost – resulting from Sample Item No. 42 (transfer of costs from Program Code 703)</b>	<b>1,862</b>
<b>TOTAL QUESTIONED COST – RESULTS OF FINANCIAL SAMPLE – FINDING 2b</b>	<b>\$ 865,594</b>
<b>TOTAL QUESTIONED COST – INELIGIBLE PARTICIPANTS – FINDING 2c</b>	<b>\$ 428</b>
<b>TOTAL QUESTIONED COST FOR AUDIT</b>	<b>\$ 1,259,574</b>

**ATTACHMENT A**

**ABRAHAM LINCOLN CENTRE  
RESPONSE TO DRAFT REPORT**



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November 27, 2002

Mr. Anthony Johnson  
U. S. Department of Labor  
Office of Inspector General  
230 South Dearborn Street  
Suite 744  
Chicago, IL 60604

Carl A. Murrain  
President and CEO  
Officers  
George F. Galland  
Chair  
Kathy Assen  
Chair Elect  
Carla Carstens  
Treasurer  
Nancy L. Kasrak  
Secretary  
Trustees  
Douglas C. Anderson  
Albert L. Bennett  
Robert R. Church, Jr.  
Michael C. Fournain  
Sonya Frazier  
John T. Goscaris  
Valerie Grace  
Marisue Grant  
Clarence W. Hall  
Richard C. Hubbard, MD  
William H. Jones  
Henrietta Leak  
Evangeline Morrison  
Barbara E. Pruder  
Sander Posniel  
Michael S. Reeves  
Walter H. Sobel  
Scott Sosoc  
Wilma J. Sutton  
Bobbie Ford-Townsend  
Advisory Committee  
John Peck  
Cordell Reed

Dear Mr. Johnson:

Please find enclosed our response to the DOL Audit dated October 28, 2002. Should you have any questions, please feel free to contact me or Ms. Valerie Wright, CFO, at your earliest convenience.

Sincerely,

*Carl A. Murrain*  
Carl A. Murrain  
President and CEO

Member of the United Way of Chicago  
Accredited by the Commission on  
Accreditation of Rehabilitation Facilities (CARF)  
Accredited by the National Association for  
the Education of Young Children (NAEYC)  
Equal Opportunity Employer



## EXECUTIVE SUMMARY

In 1998, the Abraham Lincoln Centre (ALC) established the Bridge-to-Work Program to provide comprehensive employment assistance to low-income families throughout Chicago's South side and South Suburban communities. ALC's 97-year track record makes it one of the oldest community-based organizations in Chicago. Our mission of helping people to help themselves has made the Bridge to Work employment model one of the most successful in the area as it relates to job preparation, training and placement of the hard-to-employ TANF recipient.

Through a U.S. Department of Labor Welfare to Work grant, ALC received a \$5,000,000 WtW Competitive Grant in 1999. The service strategy utilized by ALC to meet the objectives of the WtW Competitive Grant focused on non-custodial parents and hard-to-employ TANF recipients residing on the south side of Chicago and southern suburbs of Cook County. ALC agreed to provide a minimum of 650 participants with job readiness and job placement activities, post-employment training, job retention services, and case management/support services. The WtW Competitive Grant called for the unsubsidized placement of 450 participants, at a rate of \$11,976 per placement, into employment by September 2004. To date ALC has placed 275 of the 450 WtW Competitive Grant participants into employment.

ALC focused its service strategy on building bridges to employment for non-custodial parents by encouraging lifelong learning, providing job readiness, job placement, job retention, post-employment case management and support services. In addition, ALC placed a strong emphasis on providing support services to the family unit as the participant engaged in job employment activities. This, we felt distinguished the ALC concept of an employment and training model from others.

Since the grant was awarded in 1999, the Bridge to Work program has undergone three Executive Director leadership changes. Under the new leadership that began in July of 2001, the entire Bridge to Work program has undergone a restructuring of staff that is performance driven and results oriented. The new leadership has improved retention strategies and post employment support for each participant entering our program. Two key strategies implemented under the leadership of this directorship involved 1) the addition of a recruitment team to partner with organizations in providing on-site services for participants who have difficulty in accessing our service sites. And 2) increased job-training strategies to include the concept of "transferable skills" for participants who have one or more severe barriers to employment. The ability of participants to have a certifiable skill prior to



placement increases their chances for employment and retention. ALC has dedicated a significant amount of additional job training costs to ensure that these training activities are available for the participant until some level of certification occurs.

The successes of this new leadership team can be measured in its results, As of September 30, 2002, ALC has enrolled 609 participants. Of these 609 participants, ALC has placed 276 participants into a job. This equates to a 45% placement rate.

In March of 2002, the U.S. Department of Labors' Office of Inspector General (OIG) concluded an audit of the ALC's WtW Competitive Grant. The objective of this performance audit was to determine the validity of allegations made against ALC's WtW Competitive Grant Program of falsifying or altering time records, and whether the ALC was in compliance with the WtW grant agreement and applicable laws and regulations. OIG found no instances of noncompliance or material weaknesses in this audit as it related to the falsification or altering of time records. However, the auditors had findings and recommendations as a result of their audit. A summary to each finding is listed below.

#### DOL Recommendation 1A.

Implement a time distribution system in accordance with OMB Circular 122

- **ALC Response to Finding 1A**

**We disagree that staff costs were shifted from other ALC funding sources to the WtW Competitive Grant. Abraham Lincoln Centre incurred costs to operate the DOL WtW Competitive grants which were fairly presented in accordance with Generally Accepted Accounting Principles (GAAP) and audited in accordance with Generally Accepted Auditing Standards (GAAS) and Governmental Auditing Standards (GAS).**

**ALC recognizes that we can continue to improve our systems. However, ALC has never had a finding from either our external auditors or governmental auditors stating that shortcomings in administrative controls rose to the level of a material weakness or a reportable condition. In all cases, these audits were conducted in accordance with generally accepted auditing standards and/or governmental auditing standards. Further, at no time during the four month audit period, or in subsequent reports, were unallowable costs specifically identified. ALC believes that all costs charged to DOL are allowable under the terms of the grant and were expended to support the goals and objectives of the program.**

**ALC will design and implement a time distribution system in accordance with OMB Circular A-122 and 29 CFR 95. The implementation date is January 2003.**

**DOL Recommendation 1B**

Provide a full accounting of all payroll charged to major ALC funding including other DOL funding sources, and complete appropriate adjustments.

- **ALC Response to Finding 1B**

**ALC will provide a full accounting of all payroll charged to major funding sources and complete appropriate adjustment. Additional cost to the Department of Labor may occur as a result of this process.**

**DOL Recommendation 2A**

Recover \$1,187,372 of questioned costs resulting from:

- 1) an over reporting of expenditures on the QFSR of \$315,677
- 2) inadequately supported and unallowable costs found in the audit sample of ALC financial transactions charged to the grant (\$817,677) and
- 3) transportation cost in support of eight (8) ineligible participants (\$428) as presented

- **ALC Response to Recommendation 2A**

1. **ALC did not over report expenditures of \$315,677 on the QFSR. Documentation is included in the body of this report as the response to Finding 2A that demonstrates that total expenditures of \$2,741,253 reported in the QFSR are in agreement with expenditures per the general ledger.**
2. **We strongly disagree with DOL's recommendation to recover costs of \$871,677 related to personnel and other expenditures. All costs were incurred to support the operation of the program. Costs incurred were valid and properly charged to the grant. We are dismayed that DOL contemplates the disallowance of these costs. Prior audits by, City, State, and other independent auditors validate our costs.**
3. **Transportation costs of \$428 were incurred for clients who were later deemed to in-eligible.**

DOL Recommendation 2B

Review the remaining \$1,544,982 (costs not tested) to ensure these costs have been incurred in accordance with the terms of the grant agreement.

DOL Recommendation 3A

Restrict further cash drawdowns until ALC properly accounts for the WtW grant expenditures.

- **ALC Response to Recommendation 3A**

**DOL's audit of the programmatic component, at no time questioned the effectiveness of the program service delivery system; furthermore the achievements of service objectives were obtained at a cost consistent with the average placement cost of \$11,976. DOL has recognized the program's accomplishment by extending the grant through September 30, 2004.**

**Further restrictions of cash draw downs would severely hamper the delivery of services. ALC fully plans to continue to properly account for WtW grant expenditures and we do not believe that cash draw downs should be suspended. This program cannot continue without reimbursement for expenses.**

DOL Recommendation 3B

Direct ALC to maintain and report accurate participant and financial data on the QFSR, and correct MIS inaccuracies.

- **ALC Response to Recommendation 3B**

**ALC conducted an internal audit review of 50 client files in response to the OIG's audit. To ensure that participant financial data is correct ALC will document and implement procedures for QFSR reporting.**

DOL Recommendation 4A

Develop a CAP and obtain the approval of DOL's OASAM-OCD to ensure that ALC can properly report expenditures in accordance with the QFSR line item requirements

- **ALC Response to Recommendation 4A**

**ALC contacted and met with the Department’s Regional Cost Negotiator, on November 22 to review its Cost Allocation Plan. ALC will incorporate all recommendations and submit the Cost Allocation Plan to the Department of Labor’s Office of Cost Determination for approval.**

DOL Recommendation 4B

Adjust previously applied shared costs charged to the WtW program code to all funding sources which also benefited from the expenditure

- **ALC Response to Recommendation 4B**

**ALC’s CAP defines the allocation methodology for shared costs. ALC will review all previously applied shared costs charged to the WtW program and reallocate costs to all funding sources. Adjustments identified in this reallocation process may result in additional costs to the WtW Competitive grant.**

DOL Recommendation 5A

Maintain source documentation for all accounting transactions

- **ALC Response to Recommendation 5A**

**ALC’s Accounting Policies and Procedures manual requires that source documentation shall be maintained for all transactions. It is our policy to maintain source documentation for all transactions. ALC shall ensure compliance with its own procedure manual.**

DOL Recommendation 5B

Obtain appropriate programmatic and financial approval prior to processing check requests.

- **ALC Response to Recommendation 5B**

**ALC has an effective system of internal controls in place. It is our policy to have appropriate programmatic and financial approval prior to the processing of checks**

**and the organizational hierarchy has built in system checks. We will continue to monitor implementation of our internal controls.**

DOL Recommendation 5C

Formalize QFSR reporting policies to ensure that adequate financial and programmatic information is maintained and QFSRs are reviewed prior to submission to ETA.

- **ALC Response to Recommendation 5C**

**ALC will develop a formal policy for QSFR reporting by January 30, 2003. Time sheets will be utilized to track staff hours worked in support of the QSFR line item categories.**

DOL Recommendation 5D

Ensure salaries charged to the grant are supported by employees time worked.

- **ALC Response to Recommendation 5D**

**ALC will implement a revised time distribution system for staff time by the end of January 2003. Direct labor personnel will be required to complete time sheets by activity, and ALC will seek consultation on the development of an indirect costs rate. The indirect cost rate will be utilized to allocate salaries for administrative staff.**

DOL Recommendation 5E

Post grant drawdowns in the appropriate accounting system program accounts to promptly and accurately maintain an audit trail of grant assets.

- **ALC Response to Recommendation 5E**

**Our accounting system allows us to maintain an audit trail of grant funds and related expenses to the appropriate program code. The general ledger is used as a mechanism to track all grant drawdowns. Program codes are established for all funding sources which are used to record all funds and disbursements.**

DOL Recommendation 6A

Transfer \$437 from the 70 percent to the 30 percent category expenditure accounts for the six misclassified participants

- **ALC Response to Recommendation 6A**

**A total of 6 participants (12%) were fully eligible however, were misclassified. All participants have been reclassified appropriately from 70% eligibility to 30% and support dollars of \$437.00 will be moved in the expense reporting.**

DOL Recommendation 6B

Correct their MIS and QFSR to reflect the eight ineligible participants and the six misclassified participants

- **ALC Response to Recommendation 6B**

**An audit was conducted on 50 files from the adjusted universe of 589 program participants. Eligibility testing revealed eight (8) ineligible and six (6) misclassified clients. Of the eight (8) ineligible files, direct transportation support totaling \$428 was distributed. ALC was able to obtain documentation from the Non-Custodial parent unit and IDHS system to render one (1) client fully eligible at time of enrollment. Transportation for one day given to this client totaled \$5 This reduces total questioned cost to \$423**

DOL Recommendation 6C

Implement procedures to ensure evidence of public assistance and/or insufficient income prior to servicing clients

- **ALC Response to Recommendation 6C**

**Prior to delivery of the DOL audit report, ALC implemented recommendations of several program enhancements to ensure all clients are eligible and appropriately classified before they are serviced: ALC ensures that eligibility screening and review of all intake documents is conducted during the initial client in-take sessions. Clients without necessary documentation are asked to return the following day with requested documents. ALC also requests a completed 2151 form from IDHS verifying length of time on TANF prior to enrollment. Non-Custodial parent**

**applicants are sent to the NCP unit for verification of responsible relative (RR) or alleged father (AF) status prior to enrollment. Simultaneously, ALC staff verifies evidence of public assistance for the dependent child through the IDHS system and the report is kept in the client's folder.**

### **Conclusion**

**After reviewing our response taken as a whole, we believe that DOL will conclude that no material internal accounting control weaknesses exist, which would cause a high level of risk of material misstatement to the financial statements. We acknowledge that continuous improvements in administrative controls and in the application of OMB A-122 and 29 CFR 95 is necessary. However, any findings detected by the DOL auditors do not rise to the level of material weaknesses in internal accounting controls. Our accounting system allows us to account for the source and use of DOL funding. The Centre has never had a finding from either our external auditors or governmental auditors stating that our shortcomings in administrative controls rose to the level of a material weakness or a reportable condition. In all cases, these audits were conducted in accordance with generally accepted auditing standards and/or governmental auditing standards.**

**DOL's audit of the programmatic component did not question the effectiveness of service delivery. Furthermore, the achievement of service objectives is validated at a cost consistent with the average cost per placement of \$11,976 as found on the grant program Synopsis Form of our approved grant. As of November 27, 2002, we are on schedule to fulfill the requisite number of placements and meet the goals and objectives of the grant.**

**Furthermore, expenses incurred on behalf of the BTW program exceeded reimbursements from DOL and other sources for fiscal years 2000, 2001 and 2002. We believe that review of these costs could result in additional expenditures being charged to DOL.**

**Our complete detailed responses to DOL's recommendations are incorporated in the remainder of this report.**

## 1. Staff Costs Were Shifted From Other ALC Funding Sources to the WtW Competitive Grant

In July 2001, ETA formally notified the OIG of an allegation from an anonymous source that ALC staff time was being incorrectly reported, recorded, allocated, and shifted to the WtW Competitive Grant through falsification or alteration of time records. We performed fieldwork to determine the merits of the allegation. We were unable to conclude that the time records were falsified or altered as alleged. However, we found grant payroll costs included more employees than authorized, were not properly supported by source documentation in accordance with OMB Circular A-122, and, in some cases, were initially accumulated in other programs and then reallocated to the grant.

OMB Circular A-122, Attachment A requires allowable costs to be reasonable for the performance of the award, be allocable in accordance with the relative benefits received, and be adequately documented. Any cost allocable to a particular award may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or terms of the award. Attachment B. 7.m (1) and (2) further defines adequate support of salaries and wages:

... The distribution of salaries and wages to awards must be supported by personnel activity reports ... 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... 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. Each report must account for the total activity for which employees are compensated... The reports must be prepared at least monthly and must coincide with one or more pay periods....

### Recommendation

We recommend that the Assistant Secretary for Employment and Training instruct the ALC to:

- a. Implement a time distribution system in accordance with OMB Circular A-122
- b. Provide a full accounting of all payroll charged to major ALC funding sources (including two other DOL funding sources) and complete appropriate adjustments



## ALC Response to DOL Finding 1

### Payroll

The OIG selected seven payrolls for pay periods which spanned two fiscal years. Audit results indicated that 92% of payroll costs were charged to the WtW grant. However, the audit findings were extracted prior to our final adjustments at the end of the fiscal year. At the end of the fiscal years ending June 30, 2001 and 2002, corrective journal entries were made to re-allocate personnel costs to accurately report total costs for all grants. Therefore the sample results reported by the OIG are not reflective of the actual percentage of program costs charged to the WtW grant on an annual basis. See Exhibit 1. for salaries analysis for all fiscal years.

Payroll costs were questioned because we did not provide detailed time sheets for employees working on the WtW Competitive Grant as required by an approved DOL CAP. In order to reallocate staff cost, ALC will utilize payroll registers, organization charts and participant data to reconstruct staff time spent in accordance with our new time distribution system. The appropriate time distribution system was established January 2002. Given the programmatic performance of the grant, it is not practical to assume that all payroll costs should be recovered as suggested by the audit.

ALC deployed additional personnel resources to fully service clients enrolled in this program and we are able to document and fully support staffing levels based on services delivered.

Even though there were questioned costs, ALC incurred costs which were fairly presented in accordance with Generally Accepted Accounting Principles and audited in accordance with Government Auditing Standards. Audit results from external audits performed by other funding sources and the organization's independent auditors substantiated this fact.

### Reallocation of Expenditures

The OIG indicated that for five reallocations of expenditures there was no supporting documentation. ALC fully understands that an effective system of internal controls provides the mechanism to validate the accuracy of transactions, which includes maintaining adequate supporting documentation. Proper supporting documentation was not maintained. Under new leadership as of March 2002, several changes have been made to improve and strengthen internal controls. A myriad of controls have been put in place. One significant change is the stratification of approval levels before journal entries can be recorded. Additional improvements in controls are: first, all journal entries below \$10,000 must be

supported by documentation and approved by the Director of Finance before posting. Second, the accounting staff is required to provide support documentation at the time the journal entry is presented to the Director of Finance for approval. Finally, the

Chief Financial Officer reviews the general journal on monthly journal entries with the Director of Finance. If there is a disagreement with a record entry, that entry is reversed and the correct entry added before monthly financial statements are issued.

The OIG questioned the reallocation of a legal settlement. The legal settlement expense in question resulted from a wrongful discharge claim filed by two former employees of the Employment, Training and Education Department (Bridge to Work). The settlement was paid by Abraham Lincoln Centre's liability insurance; however, the insurance retention fee of \$7,500 was a cost the Centre had to absorb. The cost of this retention fee was divided between programs to cover both employees involved in this legal settlement.

Originally, the fee was charged to the WtW Competitive Grant (50%) and both IDHS program codes (25% each) because one employee's salary was allocated to these programs at said percentage rate. Subsequently, a review of our records determined that the other employee's salary involved in this legal settlement was charged to the Illinois Department of Human Services TANF program, and at which time one half of the retention fee was reallocated to this program.

#### Expenditure Reduction Credits

The credit transactions selected for audit are examples of reclassifying journal entries which were made as a part of the reconciliation process to fairly state costs for the organization's awards.

### **DOL RECOMMENDATIONS add**

#### **ALC Response to Recommendation**

- a. ALC will design and implement a time distribution system in accordance with OMB Circular A-122 and 29CFR 95. The projected implementation date is January 2003.**
- b. ALC will provide a full accounting of all payroll charged to major funding sources and complete appropriate adjustments. Additional costs to other Department of Labor as a result of this process will be reflected.**

## 2. Questioned Costs

We question \$1,187,372, or 43 percent of the \$2,741,253 claimed by ALC. The questioned costs include an over-reporting of expenditures on the QFSR (\$315,267); unsupported, inadequately supported, and unallowable costs (\$871,677); and costs associated with ineligible participants (\$428) as documented in Finding No.6.

### A. QFSR Expenditures Overstated

The ALC submitted a QFSR, dated February 25,2002, claiming \$2,741,253 of grant expenditures through December 31,2001. For the same period, ALC's general ledger documented cumulative grant expenditures of \$2,425,986. Consequently, the QFSR expenditures were overstated by \$315,267 (\$2,741,253 less \$2,425,986).

29 CFR Part 95.21(b)(1) states:

*Recipients' financial management systems shall provide... Accurate, current and complete disclosure of financial results of each federally-sponsored project or program in accordance with the reporting requirements ...; and (7) adds: Accounting records including cost accounting records that are supported by source documentation.*

ALC officials were unable to provide the cause of this excessive claim, but did indicate that they do not have a complete understanding of ALC's automated accounting system due to recent staff turnover. The over-reporting of expenditures circumvents ETA's ability to prevent excessive cash drawdowns.

### B. Audit Results of Financial Sample

We selected 120 transactions for audit totaling \$879,142, or 36 percent of cumulative grant expenditures (\$2,425,986) as documented in the ALC general ledger. Our audit disclosed that 95 percent of the sampled transactions (114 of 120) resulted in inadequately supported and/or unallowable costs totaling \$869,815, or 99 percent of sampled costs. We also question an additional \$1,862 related to a personnel transaction in our sample for total questioned costs of \$871,677. Based upon this high percentage of questioned costs, we believe that ETA should review the remaining costs not tested to ensure these costs have been incurred in accordance with the terms of the grant agreement.

The results of our audit are presented in the Table 2a on the next page:

We determined that 114 transactions were not in compliance with 29 CFR Part 95, OMB Circular A-122, or ALC's accounting policies and procedures (see Exhibit A for details). Therefore, we question \$871,677.

### C. Ineligible Participants

We question \$428 of direct transportation costs associated with servicing eight participants considered ineligible in Finding No; 6. ALC's participant MIS indicated that \$428 of transportation costs were provided on behalf of the eight participants. However, it was not possible to trace the transportation costs by participant through the ALC accounting system.

### Recommendation

We recommend that the Assistant Secretary for Employment and Training:

- a. recover \$1,187,372 of questioned costs resulting from:
  - an over-reporting of expenditures on the QFSR (\$315,267),
  - inadequately supported and unallowable costs found in the audit sample of the ALC financial transactions charged to the grant (\$871,677), and
  - transportation costs in support of 8 ineligible participants (\$428) as presented in Finding No. 6, and
- b. review the remaining \$1,544,982 (costs not tested) to ensure these costs have been incurred in accordance with the terms of the grant agreement.

**ALC Response to DOL Finding 2A**

1) ALC did not over-report expenditures of \$315,267 on the QFSR. Expenditures reported on the QFSR are based on a summary of the following:

<b>Expenditure Item</b>	<b>Time Period</b>	<b>Costs</b>
<b>General Ledger</b>	<b>Three months ending 12/31/01</b>	<b>\$698,533</b>
<b>General Ledger</b>	<b>Three months ending 9/30/01</b>	<b>\$315,957</b>
<b>Independent Financial Audit</b>	<b>Year ending 6/30/01</b>	<b>\$910,685</b>
<b>Independent Financial Audit</b>	<b>Year ending 6/30/00</b>	<b>\$816,207</b>
<b>Total</b>		<b>\$2,741,253</b>

The QFSR information listed on the table above was based on interim quarterly financial statements for the period ending December 31, 2001 and September 30, 2001, as well as audited financial statements for fiscal years 2000 and 2001. Included in the exhibits is the source documentation which was used to complete the QFSR report. It appears that the DOL's auditors may have excluded the quarterly interim statement as of September 30, 2001 in their computation.

Based on this information, the general ledger and the QFSR are in agreement and ALC did not over report expenditures. Documentation to support this illustration can be found in Exhibit 2.1 through Exhibit 2.5.

2) We strongly disagree with DOL's recommendation to recover \$871,677 in costs related to personnel and other expenditures. All costs were incurred to support the operations of the program. While a DOL approved CAP was not in place, costs incurred were valid and applied according to our existing cost allocation plan. We are dismayed that DOL contemplates the disallowance of these costs. Prior audits by City, State, and independent auditors validate our costs. In our research, we found no unallowable costs.

Approximately, 41% (\$361,086) of the questioned costs were related to personnel and were questioned because of improper preparation of time sheets. These costs were incurred for valid employees who worked on the WtW grant. The remaining questioned costs of \$510,591 related to inadequate documentation for non-personnel expenditures incurred for the program over a three year period. It appears that DOL's

position is that it will not pay for any costs. We are dismayed that DOL questions 99% of all costs audited three years after the award of the grant. According to this recommendation DOL is suggesting that they do not want to reimburse us for any of the staff costs related to this grant over the last three years. Nor do they want pay for occupancy, utilities and supplies incurred to recruit, place and employ over 500 participants. We strongly disagree with DOL's recommendations.

3) Transportation costs of \$428 are costs incurred for participants who were later deemed in-eligible. Therefore, we agree these costs should not be charged to DOL.

### **ALC Response to Findings and Recommendation 2B**

The remaining \$1,154,982 costs should not be tested. ALC has been audited by its external auditors as well as auditors from various City and State funding sources. In all cases, expenditures were recorded in accordance with GAAP and audited in accordance with GAAS and GAS. There were no questioned costs, there were no compliance issues and there were no audit reports that cited material internal control weaknesses that present a high level of risk of misstatements in amounts that would be material in relation to the financial statements. It is ALC's position that the conclusions reached by DOL's audit are unwarranted and excessive in their application to the entire grant. It is also ALC's position that all costs incurred were fairly presented and properly charged to the WtW grant.

By recommending that DOL recover every dollar spent on this program including all personnel, all occupancy, all training costs and all supply costs does not acknowledge the 589 individuals who came to our program and received services over a three year period of the WtW Competitive grant. So, we therefore strongly disagree with the recommendation of the auditors.

DOL's audit of the programmatic component did not question the effectiveness of service delivery. Furthermore, the achievement of service objectives was obtained at a cost consistent with the average cost per placement of \$11,976 as found on the Program Synopsis Form of our approved grant. As of November 27, 2002, we are on schedule to fulfill the requisite number of placements and meet the goals and objectives of the grant.

### 3. Non-compliance with Grant Requirements

ALC did not always comply with grant requirements regarding cash management and QFSR reporting.

#### A. Cash Management Procedures Are Not Adequate

**ALC obtained  
\$237,902 of excess  
cash from the grant**

ALC obtained excessive cash from the grant as compared to booked expenditures. As of December 31, 2001, ALC's QFSR reported expenditures were \$2,741,253 while ALC's general ledger documented cumulative grant expenditures of \$2,425,986. ALC had accumulated cash draw downs of \$2,663,888 from the grant through December 31, 2001. We concluded that ALC had obtained at least \$237,902 (\$2,663,888 less \$2,425,986) of excess cash as of December 31, 2001.

29 CFR 95.22 (a) states:

*Payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks... by the recipients (b)(2) states ... Cash advances to the recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.*

ALC obtained the excess cash prior to an existing bona fide need to meet grant related disbursements. We found a general pattern that ALC would transfer cash from the bank account established for BTW to the ALC operating and payroll accounts of another bank. We also determined that all BTW revenues, in addition to the WtW Competitive Grant, were processed through the bank account established for WtW. Therefore, the individual cash balances of each BTW funding source lose their identity through the process of transferring funds to ALC's operations and payroll accounts of the other ALC bank.

## B. QFSR Detail Line Items Are Not Supported

QFSR detail line items do not reconcile to general ledger or MIS

We were unable to reconcile WtW expenditure line item categories as reported on the December 31, 2001 QFSR to ALC's financial records. These line items included 70 percent and 30 percent expenditures, and administrative versus program expenditures.

20 CFR 645.211 states:

*. . . may spend not more than 30 percent of the Wt W funds allotted to or awarded to the operating entity to assist individuals who meet the "other eligibles" eligibility requirements. . . The remaining funds allotted to or awarded to the operating entity are to be spent to benefit individuals who meet the "general eligibility" and/or "noncustodial parents" eligibility requirements. . .*

20 CFR 645.235(a)(2) states:

*. . . 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.*

The ALC accounting system never incorporated the QFSR expenditure reporting requirements and ALC staff did not maintain an audit trail from reported line items to source documentation. The ALC staff could not document which expenditures in the general ledger were associated with 70 percent and 30 percent expenditures, or with administrative versus program expenditures. As a result, it was not possible to reconcile any QFSR detail line item expenditures to the financial records. The breakdown of expenditures is important because of regulatory limitations on costs.

It should be disclosed that the ALC staff began utilizing a time sheet to track hours worked in support of the QFSR line item categories immediately after our audit period.

The reporting of participants served on the QFSR was also incorrect.

20 CFR 645.240(d) *Participant reports*, states:

*Each grant recipient must submit participant reports to the Department. Participant data must be aggregate data, and, for most data elements, must be cumulative. . . .*



The ALC reported 800 participants served on the December 31, 2001 QFSR (567 as 70 percent and 233 as 30 percent). The ALC's MIS included 800 participants that applied for the WtW program through December 31, 2001. Initial testing revealed that some of these did not meet the ETA definition of "participant served." The ALC officials subsequently confirmed that 211 of the reported 800 did not meet ETA's definition. Of the remaining 589 (800 less 211) "participants served," 397 were designated as 70 percent, and 192 were designated as 30 percent.

Inaccurate programmatic reporting affects ALC's ability to accurately track QFSR line item category costs in accordance with a CAP and affects ETA's ability to properly exercise its stewardship responsibility over the WtW program.

#### Recommendation

We recommend that the Assistant Secretary for Employment and Training:

- a. restrict further cash drawdowns until ALC properly accounts for the WtW grant expenditures, and
- b. direct ALC to maintain and report accurate participant and financial data on the QFSR, and correct MIS inaccuracies.

#### **ALC Response to DOL Finding 3A – Restriction of Further Cash Drawdowns**

**We disagree with DOL's recommendation to restrict further cash drawdowns. The program is meeting our job placement benchmarks in accordance the competitive grant, and WtW grant expenditures are identifiable in our accounting records.**

**ALC had no excess cash compared to booked expenditures (*Exhibit 3.1*). As of December 31, 2001, ALC's general ledger documented cumulative grant expenditures of \$2,741,253. ALC accumulated cash drawdowns of \$2,663,888 through December 31, 2001. ALC's program support outlay's exceeded cash draw downs by \$77,365 (\$2,741,253 less \$2,663,888).**

**ALC obtained cash as needed to meet grant related disbursements. ALC utilizes two main bank accounts; one is used for operating expenses and the other for payroll expenses. Because ALC receives several grants from various funding sources it is not practical to establish a bank account for each grant. Instead, the agency utilizes these two bank accounts for all organization expenditures.**

**ALC's general ledger is used as a control mechanism to account for each grant, all revenue and expenditures are tracked through the use of program and account codes. Therefore the balance of an individual program or funding source does not lose its identity in the accounting process.**

**ALC Response to DOL Finding 3B – Maintenance of Participant and Financial Data on the QFSR and MIS Inaccuracies**

**The audit trail for ALC's QSFR submitted on February 25, 2002, can be traced back to ALC's audited financial statements for FY 2000 (\$816,207) and FY 2001 (\$910,556), the remaining period for the QSFR report July 2001 thru December 2001 (\$1,014,490) equals a combined total (\$2,741,253) which corresponds to ALC's general ledger for that period. (See *Exhibit 3.2*).**

**ALC began utilizing time sheets to track billable staff hours in support of the QSFR line item categories in January 2002. This allows ALC to charge the actual hours staff accumulated servicing DOL/WtW clients. Furthermore, ALC maintains monthly statistics on its clients by program and category (70%/30%).**

**ALC's grant program synopsis form indicates an average service cost of \$11,976 per client. ALC's finance department will utilize individual client data to calculate overhead cost allocations consistent with its cost allocation plan.**

#### 4. Incomplete Cost Allocation Plan

The ALC is composed of several operating components including Administration, Child Development Services, Special Education and Mental Health, Residential Services, Social Work, Economic Development, and Employment and Training. The ALC Employment and Training component is commonly known as BTW. During our audit period, BTW was funded by several agencies in addition to the WtW Competitive Grant.

The Grant Agreement, Part IV, Special Clause No. 2 requires all awardees receiving funds from multiple funding sources to complete this section requiring the inclusion of an approved CAP and/or an Indirect Cost Rate. ALC did not maintain an approved CAP or obtain an indirect cost rate.

29 CFR 95.21(b)(6) states:

Recipients' financial management systems shall provide... written procedures for determining the reasonableness, allocability and allowability of costs in accordance with...Federal cost principles and the terms and conditions of the award.

Because ALC did not maintain an approved CAP, we identified 21 transactions in our sample that were unallowable as a result of ALC:

- direct charging the WtW program code for shared ALC agency costs,
- direct charging the WtW program code for costs benefiting all BTW programs, or
- allocating costs to multiple ALC funding sources but only to the WtW program code within BTW.

As of March 28, 2002, ALC officials provided the OIG with a "draft" CAP. However, the CAP had not been submitted to or approved by DOL's OCD.

#### Recommendation

We recommend that the Assistant Secretary for Employment and Training ensures that ALC:

- a. develops a CAP and obtains the approval of DOL's OASAM-OCD to ensure that ALC can properly report expenditures in accordance with the QFSR line item requirements, and

b. adjusts previously applied shared costs charged to the WtW funding sources which also benefited from the expenditure.

**ALC Response to DOL Finding 4 - Incomplete Cost Allocation Plan**

**ALC operates multiple programs at various locations. The organization provides child development and welfare, employment training, economic development, social work, special education, mental health, developmental training and residential services. These services are offered through programs at five divisions – Residential Services, Social Work Services, Special Education, Child Welfare, and Employment and Training. The organization accumulates management and general expenses in the Administration cost center. A CAP policy statement was issued on June 14, 2000 by the former President and CEO (See Exhibit 4.1).**

**We developed a detailed Cost Allocation Plan which was reviewed and accepted by other funding sources. The present administration could not locate documents indicating that ALC was not in compliance in receiving approval for its CAP from the Department of Labor’s Office of Cost Determination. Since DOL fieldwork, ALC has:**

- a. **ALC contacted and met with a DOL Regional Cost Negotiator to review our current Cost Allocation Plan. The DOL staff person recommended changes to our CAP. Accordingly, ALC will to incorporate those recommendations and submit the Cost Allocation Plan to the Department of Labor’s Office of Cost Determination for approval. See a draft Cost Allocation Plan with DOL staff review comments at Exhibit 4.2.**
- b. **ALC will review all previously applied shared costs charged to the WtW program. Adjustments identified may result in additional costs to the WtW grant.**

**Abraham Lincoln Centre Response to DOL Welfare-to-Work Competitive Grant Audit**

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5. Internal Controls Need To Be Strengthened

Internal control weakness in ALC's accounting, payroll and reporting systems

Several internal control weaknesses were discovered during audit that may have contributed to and compounded other findings. A sound system of internal control includes complete documentation, policies and procedures, segregation of duties, as well as supervisory review and approval.

29 CFR Part 95.21 (b)(2)(3) and (7) state:

Recipients' financial management systems shall provide... Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to Federal awards, ...assets, outlays....; Effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such assets and assure that they are used solely for authorized purposes....; and Accounting records including cost accounting records that are supported by source documentation.

We found that ALC did not maintain source documentation to support accounting entries, processed check requests directly through accounting staff, had no QFSR reporting system, did not maintain time sheets for every employee, paid employees for non-work periods, and did not properly account for grant drawdowns.

Missing source documentation

ALC could not provide source documentation for 58 of 120 transactions (48 percent of sample) that represents \$403,240 of questioned costs. The high error rate establishes an increased risk of the ALC accounting system being unreliable.

Check requests processed directly through or not documented by accounting staff

ALC provided documentation to support 62 of 120 transactions. Nine of the 62 transactions were payroll-related and did not involve check requests. Of the 53 transactions involving check requests, we determined 29 of 53 (55 percent) lacked acceptable segregation of duties (see Exhibit A). In most cases, the check requests were simply processed by the accounting

clerk without any documented oversight/approval of BTW officials or other ALC Finance staff. We also found three check requests even lacked the initials of the accounting clerk who processed the request. The high error rate establishes an increased risk of the ALC accounting system being undeniable.

#### No QFSR reporting system

ALC had not established a formal system for the preparation and subsequent documentation of the QFSR submitted to ETA for this grant. Instead, the ALC Finance official responsible for obtaining and submitting the QFSR data to ETA informed us that programmatic data is obtained from BTW and current quarter expenditures are added to the previous QFSR's line item totals for preparation of the current QFSR.

#### Salaries paid do not reconcile with employees time worked

For the pay period ending April 15, 2001, we found three employees' payroll time sheets did not reconcile to paid salary. One employee's time sheet documented one workday as leave without pay. Another employee's time sheet documented two workdays as suspension. The third employee's time sheet documented two workdays as leave without pay. However, all three employees received full pay. For the pay period ending July 31, 2001, we found another employee's time sheet did not reconcile to the paid salary. The employee's time sheet documented three workdays with no activity but the employee received full pay. We question the associated payroll costs for these staff in Finding No. 2.

#### Grant drawdowns cannot be traced to ALC's accounting records

We were unable to trace 29 of 37 tested grant drawdowns (78 percent) to the appropriate cash account in the ALC books of record for the grant. Further, we were unable to trace five drawdowns (14 percent) to the revenue account established for the WtW Competitive Grant. As a result, the grant's cash loses its identity within the BTW component of ALC and becomes co-mingled with BTW's other funding source revenue.

#### Recommendation

We recommend that the Assistant Secretary for Employment and Training require ALC to strengthen financial management internal controls by:

- a. maintaining source documentation for all accounting transactions,
- b. obtaining appropriate programmatic and financial approval prior to processing check requests,

- c. formalizing QFSR reporting policies to ensure that adequate financial and programmatic information is maintained and QFSRs are reviewed prior to submission to ETA,
- d. ensuring salaries charged to the grant are supported by employees' time worked, and
- e. posting grant drawdowns in the appropriate accounting system promptly and accurately maintain an audit trail of grant assets.

### **ALC Response to DOL Finding 5 – Inadequate Internal Controls**

**The Abraham Lincoln Centre possesses an effective system of internal control. (See policy statement issued by the administration at Exhibit 5.1). Our administrative and accounting controls are designed to validate transactions, determine the accuracy of recorded amounts, insures the completeness of transactions, monitor accounting records for accuracy and completeness, and safe guard assets. These five basic objectives are part of our document policies and procedures. It is our policy that all accounting transactions are supported by authoritative documentation before processing. The organizational hierarchy of the accounting department, divisional heads and the chief executive officer provides for segregation of duties and supports multiple layers of supervisory review and approval.**

**Since DOL field work, we have stabilized our accounting managerial and clerical staff and have noticed the continuous improvement in adhering to company policies and procedures. At the time of DOL fieldwork, there were no accounts payable staff members who had been with the organization more than a month. The timing of the audit combined with the staff changes taking place in the accounting department unfortunately caused misleading results. Documentation retrieved during our investigation refutes the reports findings and conclusions. Our response to specific internal control weaknesses in our accounting, payroll, and reporting system follows:**

#### **5a. Missing source documents**

**Changes in key accounting personnel contributed to the difficulty in retrieving the source documentation requested by DOL auditors. The use of temporary help in our accounts payable department during administrative transition contributed to our inability to identify and retrieve requested source documentation during DOL audit field work.**

**Accordingly, current staff was successful in finding source documentation for 24 of the 58 missing items (See Exhibits 2.7 to 2.33). Substitute documentation was located for**

three other. Had this documentation been made available during field work, we believe DOL auditors would not have concluded our accounting system is unreliable.

**5b. Check request processed directly through or not documented by accounting staff**

We disagree with this audit finding that duties are not adequately segregated because check requests lacked signatures of BTW officials nor were initialed by the accounts payable clerk who processes the check. One should not conclude that our accounting system possesses an increased risk of unreliability due to the absence of signatures or initials on administrative control documents.

Exhibit 5.2 represents the Cash Disbursements and Bank Transfer Processing policies established by the former President and CEO dated April 25, 1999. This policy predates the DOL competitive grant. Exhibit 5.3 is the Accounts Payable-Open Invoice and Payment Processing policy revised on February 1, 2000 and Exhibit 5.4 represents the purchasing policies revised June 14, 2000 and effective July 1, 2000. These policies were also approved and issued by the former President and CEO of ALC.

The Executive Director of the Employment and Training division forwards invoices to our accounts payable staff for payment. The accounts payable staff must review the invoice, check our accounts payable module for possible duplication, and enter the open invoice in the accounting system in order to process the check. All disbursements require two signatures. Both signatures can not be facsimiles. A voucher consisting of the check request and the attached invoice are presented to the Chief Financial Officer for her signature. The live signature is almost always our Chief Financial Officer. In those rare instances where she has not been available, the other live signature is usually our Chief Operating Officer. Therefore, in all cases, no funds are disbursed without proper review and authorization, even if check requests have not been properly initialized by accounts payable clerks. It is our policy that all check request and supporting documentation are verified by an accounts payable clerk and reviewed by the accounts payable supervisor.

**5c. No QFSR reporting system**

A formal system for the preparation and subsequent documentation of the QFSR submitted to ETA was established. Reported financial data is taken from our general ledger and ALC began utilizing time sheets to track staff hours worked in support of the QFSR line item categories in January 2002. This allows ALC to determine actual



**hours that shared staff have serviced DOL/WtW clients. ALC maintains monthly statistics on its clients by fund and category (70%/30%).**

**ALC has received technical assistance from DOL's systems accountant, and has implemented procedures for reporting the 70/30 split appropriately to these line items.**

**5d. Salaries paid do not reconcile with employees time worked**

**It is not the policy of Abraham Lincoln Centre to pay employees for non-work periods. The Centre maintains time and attendance sheets for all employees. These time and attendance sheets are completed semi-monthly by employees and signed by supervisory personnel to substantiate accuracy of time worked. The time and attendance sheets are submitted to the payroll coordinator whose responsibility is to prepare the semi-monthly payroll checks based on the information obtained from said time and attendance sheets.**

**The employees paid for hours not worked at the end of the April 15, 2001 pay period was an error. One employee was paid \$126.40 for a day of leave without pay; one employee was paid \$230.30 for two days of suspension and one employee was paid \$322.40 for two days of leave without pay. The total improper payment for all three employees amounted to \$679.10. This error in payment, fully, was a result of a newly hired payroll coordinator that was not properly trained to process the payroll. The payroll coordinator was hired in this position on April 1, 2001.**

**The payment given to the employee for pay period ending July 31, 2001 for unsubstantiated days of work was due to an oversight of an incomplete time and attendance sheet. The employee received payment for two days in the amount of \$322.40.**

**The Centre currently employs a full time Human Resources Director that has the responsibility of reviewing the time and attendance sheets, comparing same against the check register, identifying any unsubstantiated payments and take necessary action to avoid payment for non-work hours/days.**

**5e. Grant drawdowns cannot be traced to ALC's accounting records**

**ALC draws DOL funding on a reimbursement basis. Once the monthly closing takes place for DOL costs, the total costs for the month are recorded as a receivable for that month.**

**Funds drawn from DOL are wired into a special account at Seaway Bank in Chicago. Funds are then transferred to our operating account to reimburse ALC for expenses incurred. Both transactions are easily identifiable in our accounting records through the use of general ledger codes, program codes, and account codes. Therefore, the balance of an individual program or funding source does not lose its identity in the accounting process.**

**DOL's audit of the programmatic component did not question the effectiveness of service delivery. Furthermore, the achievement of service objectives were obtained at a cost consistent with the average costs per placement of \$11,976 as found on the Grant Program Synopsis Form of our approved grant. As of November 27, 2002, we are on schedule to fulfill the requisite number of placements and meet the goals and objectives of the grant.**

## 6. Inadequate Participant Eligibility and Documentation

We judgmentally selected a sample of 50 participants from the adjusted universe of 589 participants served for participant eligibility testing. The sample was divided into two groups based upon the eligibility determination date. We determined that 5 of the sampled participants enrolled before January 1, 2000, and the remaining 45 enrolled from January 1, 2000 through December 31, 2001. This was necessary because WtW eligibility requirements changed as of January 1, 2000. Our eligibility testing revealed eight ineligible and six misclassified participants were served in BTW's WtW program.

### A. Ineligible Participants

8 ineligible participants resulted in questioned costs of \$428

Of the 50 participants in our sample, 8 were considered ineligible for WtW based on insufficient, incomplete, or undocumented public assistance information and/or undocumented participant income as of the eligibility determination date.

20 CFR 645.212(a) and (b) (dated November 18, 1997) state:

An individual is eligible to be served under the 70 percent provision if... ,The individual is receiving TANF assistance; and" ,Has received assistance under the State TANF program, and/or its predecessor program, for at least 30 months ..A noncustodial parent of a minor is eligible to participate under the 70 percent provision if the custodial parent meets the eligibility requirements ...

20 CFR Part 645.212(c) (dated January 11, 2001) states:

An individual may be served under this provision if,. (S) he is a noncustodial parent of a minor child if., ,At least one of the following applies: (i) The minor child, or the custodial parent of the minor child, meets the long-term recipient of TANF requirements ".(ii) The minor child is receiving or is eligible for TANF benefits and services; (iii) The minor child received TANF benefits and services during the preceding year; or (iv) The minor child is receiving or is eligible for assistance under the Food Stamp program, the Supplemental Security Income program, Medicaid, or the Children's Health Insurance Program,...

20 CFR 645.213 (a) and (c) (dated January 11, 2001) state:

Any individual may be served under this provision if (s)he...Is currently receiving TANF assistance.. .Is a custodial parent with income below 100 percent of the poverty line...

Of the eight considered ineligible, seven were enrolled in WtW as noncustodial parents. However, the participants' files did not have the proper documentation verifying the custodial parent's or their child(ren)'s public assistance eligibility. The noncustodial parents also did not meet the requirements for other WtW eligibility categories.

The remaining ineligible was enrolled in WtW as a custodial parent with income below the poverty line. However, the participant's file did not provide proof of income or TANF eligibility.

Since ALC did not have necessary documentation in all participants' files, we consider the eight participants to be ineligible. ALC's MIS indicates \$428 of direct transportation services were provided on behalf of the participants considered ineligible. We question the \$428 of direct transportation services in Finding No. 2.

#### B. Misclassified Participants

6 misclassified participants

Our eligibility testing also disclosed six participants who were considered improperly classified in the WTW program. One participant was classified as hard-to-employ noncustodial (70%) enrolled before January 1, 2000; and five participants were classified as primary eligibles (70%) enrolled after January 1, 2000. The misclassified hard-to-employ participant file did not include evidence that the custodial parent had received TANF and/or Aid to Families with Dependent Children (AFDC) for 30 months or more at the time of WtW enrollment. The misclassified primary eligibles included four custodial parent files that did not include evidence that they had received TANF and/or AFDC for 30 months or more at the time of WTW enrollment. The remaining primary eligible was listed as a primary noncustodial but the file included evidence of custodial parent with income below the poverty line. We determined that all six participants met the respective 30 percent criteria and should have been classified accordingly.

The misclassifications by ALC overstated the 70 percent category and understated the 30 percent category. The improper classification of participants also can affect the QFSR reporting process when reporting the QFSR individual line item expenditures. We believe

the misclassifications occurred because the ALC staff did not obtain documentation of public assistance prior to servicing clients. ALC's MIS indicates \$437 of direct transportation services were provided on behalf of the participants considered misclassified. We consider these costs as misclassified because it was not possible to trace the transportation costs by participant through the ALC accounting system.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training direct the ALC to:

- a. transfer \$437 from the 70 percent to the 30 percent category expenditure accounts for the six misclassified participants,
- b. correct their MIS and QFSR to reflect the eight ineligible participants and the six misclassified participants, and
- c. implement procedures to ensure evidence of public assistance and/or insufficient income prior to servicing clients.

**ALC Response to DOL Finding 6a – Transfer of \$437**

**A total of 6 participants (12%) were fully eligible however, were misclassified. All participants have been reclassified appropriately from 70% eligibility to 30% and support dollars of \$437.00 will be moved in the expense reporting. (See spreadsheet)**

**ALC Response to DOL Finding 6b – Correction of MIS System Documentation**

**The audit was conducted on 50 files from the adjusted universe of 589 program participants. Eligibility testing revealed 8 ineligible and 6 misclassified clients. Of the 8 ineligible files, direct transportation support totaling \$428.00 was distributed. (Also shown in finding #2) ALC was able to obtain documentation from the Non-Custodial parent unit and the IDHS system to render one (1) client fully eligible at time of enrollment. Transportation for one day given to this client totaled \$5.00. This reduces total questioned cost to \$423.00 (See attached chart for breakdown).**

**ALC Response to DOL Finding 6c – Implementation of Procedures**

**Prior to delivery of the draft audit, ALC implemented recommendations of several internal program controls to ensure all clients are eligible and appropriately classified before serving them:**

- Eligibility screening of all documents is conducted upfront during weekly client in-take sessions. Clients without necessary documentation are asked to return the following with requested documents.
- ALC request a completed 2151 form from IDHS verifying length of time on TANF prior to enrolling.
- Non-Custodial parent applicants are sent to the NCP unit for verification of responsible relative (RR) or alleged father (AF) status prior to enrollment. Simultaneously, ALC staff verifies evidence of public assistance for the dependent child via access of the IDHS system and the printout is kept in the clients' folder.

**Table 6a - Eight Participants Considered Ineligible**

#	Name	SSN	WtW Eligibility Date	Audit Response	ALC Response	Amount Spent
1	Omitted (by OIG)	Omitted	22-Jun-00	Ineligible	Ineligible	\$83.00
2	Omitted (by OIG)	Omitted	15-Nov-01	Ineligible	Ineligible	\$0.00
3	Omitted (by OIG)	Omitted	5-Feb-00	Ineligible	Ineligible	\$200.00
4	Omitted (by OIG)	Omitted	29-Nov-01	Ineligible	Ineligible	\$0.00
5	Omitted (by OIG)	Omitted	22-Nov-99	Ineligible	Ineligible	\$120.00
6	Omitted (by OIG)	Omitted	27-Jun-00	Ineligible	Ineligible	\$20.00
7	Omitted (by OIG)	Omitted	20-Mar-00	Ineligible	Ineligible	\$0.00
8	Omitted (by OIG)	Omitted	29-Aug-01	Ineligible - 30%	reclassified to 70%	-\$5.00
	<b>TOTAL</b>					<b>\$423.00</b>

<b>#</b>	<b>Name</b>	<b>WtW Eligibility Date</b>	<b>Audit Response</b>	<b>ALC Response</b>
<b>1</b>	<b>Omitted (by OIG)</b>	<b>22-Nov-99</b>	<b>Misclassified as 70%</b>	<b>Reclassified to 30% in 2/2002</b>
<b>2</b>	<b>Omitted (by OIG)</b>	<b>7-Jun-01</b>	<b>Misclassified as 70%</b>	<b>Reclassified to 30% on 2/11/2002</b>
<b>3</b>	<b>Omitted (by OIG)</b>	<b>3-May-01</b>	<b>Misclassified as 70%</b>	<b>Reclassified to 30% on 2/11/2002</b>
<b>4</b>	<b>Omitted (by OIG)</b>	<b>23-Oct-00</b>	<b>Misclassified as 70%</b>	<b>Reclassified to 30% on 2/11/2002</b>
<b>5</b>	<b>Omitted (by OIG)</b>	<b>28-Aug-00</b>	<b>Misclassified as 70%</b>	<b>Reclassified to 30% on 2/11/2002</b>
<b>6</b>	<b>Omitted (by OIG)</b>	<b>29-Nov-01</b>	<b>Misclassified as 70%</b>	<b>Reclassified to 30% on 3/25/2002</b>