

Audit of Welfare-to-Work
Competitive Grant No. Y-7835-9-00-81-60
City of San Antonio, Texas



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ABBREVIATIONS

ASCEND	Advocates Striving to Create Edgewood Neighborhood Development
DCI	Department of Community Initiatives
DOL	U. S. Department of Labor
ETA	Employment and Training Administration
IDTA	Individual Development Training Account
JOLI	Job Opportunities for Low-Income Individuals
OIG	Office of Inspector General
PIP	Performance Impact Plan
TANF	Temporary Assistance for Needy Families
WtW	Welfare-to-Work

EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL), Employment and Training Administration (ETA), awarded the city of San Antonio (the city), Texas, a \$4,994,288 Welfare-to-Work (WtW) competitive grant (No. Y-7835-9-00-81-60) for the period October 1, 1999, through September 30, 2004, as amended. ETA awarded the grant based on the city's proposal's unique and innovative features, which included significant performance contributions by the University of Kansas.

The city considered terminating its WtW competitive grant and returning the unused funds to DOL because the city was not achieving the grant's goals. ETA encouraged the city to redesign its program and find another agency to administer the grant, rather than terminating the grant and returning the unused funds.

Our audit objectives were to determine if:

- the city's redesigned WtW program significantly changed the scope of the competitive grant's original design, and
- the University of Kansas (the University) costs to the grant were for allowable activities that benefited the WtW program.

We found that the objectives and goals of the modified grant differed greatly from the grant's original "unique and innovative" features. The modified goals and objectives are so different that the grant modification, approved by ETA, resulted in the grant no longer containing the unique, innovative features that resulted in its selection from a competitive process.

We recommend the Assistant Secretary for Employment and Training take corrective action when ETA or the grantee determines that a competitive grantee is not performing as intended, or its grant goals cannot be achieved. ETA should terminate the grant and recover the unused funds. Recovered funds should be reprogrammed, if possible.

We also found that the majority of activities reported by the University of Kansas were not allowable activities as defined by WtW regulations. We recommend the Assistant Secretary require the city to re-evaluate the \$143,653 paid to the University and recover any payments determined not related to the WtW grant.

ETA's Response to Our Draft Report

ETA did not respond to the draft report.

OIG's Conclusion

Our recommendations remain unchanged.

BACKGROUND

The Office of Inspector General (OIG) learned that the city was considering terminating its WtW competitive grant and returning the unused funds to DOL because the city was not achieving the grant's goals. The OIG also learned that the ETA encouraged the city to redesign its program and find another agency to administer the grant, rather than returning the unused funds.

ETA awarded the city of San Antonio (the city), Texas, a \$4,994,288 Welfare-to-Work (WtW) competitive grant (No. Y-7835-9-00-81-60), for the period October 1, 1999, through September 30, 2004, as amended. The city's Department of Community Initiatives (DCI) is responsible for the grant.

In summary, the purpose of the grant was to provide comprehensive and innovative transitional assistance over a 30-month period to Temporary Assistance for Needy Families (TANF) recipients with disabilities and other special learning needs living in San Antonio's Edgewood neighborhood. One of the grant's goals was *the development of a sustainable, community-based system and infrastructure of information, opportunities, services, and supports that will serve as a prototype for enhancing the opportunity of all city residents in or entering the low-wage labor market to escape poverty through work.*

The city's WtW competitive grant program never operated as stated in the grant agreement. Instead of creating the Edgewood Cooperative as a legal entity to operate the WtW program, DCI created Advocates Striving to Create Edgewood Neighborhood Development (ASCEND), using city of San Antonio staff, to administer the grant.

After local media raised concerns about ASCEND's WtW program, the city manager ordered the city's Office of Internal Review to conduct an audit of the WtW competitive grant program. The Office of Internal Review's July 23, 2001, audit report contained 17 findings critical of the ASCEND program.

According to the city's Office of Internal Review audit report, since its inception, the WtW program (i.e., the ASCEND program) was not operating as envisioned in the grant agreement and was not meeting its program goals. Due to the unfavorable audit report and the local media's criticism of the program, city officials decided to either end the grant or have an outside agency run the program. Intake into the WtW program, that is, enrolling new participants, stopped in August 2001 and basically the WtW program was put on hold until the new grant operator could resume WtW services.

During our fieldwork, the city was eliminating the ASCEND-administered program and transferring the WtW program to another grant operator. Subsequent to our fieldwork, the city selected Goodwill Industries of San Antonio, a private, nonprofit organization, as the grant operator. The San Antonio City Council approved the Goodwill contract in March 2002. The contract period is from April 2002 through September 2004.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our audit objectives were to determine if:

- the city's redesigned WtW program significantly changed the scope of the competitive grant's original design, and
- the University of Kansas (the University) costs to the grant were for allowable activities that benefited the WtW program.

Scope and Methodology

We conducted an entrance conference with city officials on November 6, 2001, and completed our site fieldwork in December 2001. Additional documentation relating to the audit was obtained after the end of the site field work. The audit of the changes in the WtW program design covered the period from November 2001 through March 2002. We reviewed the original grant award, including the grant proposal and compared the provisions to the proposed changes, primarily the city's modification request sent to ETA.

To determine whether the city's payments to the University were for allowable activities, we reviewed all the deliverables and staff timesheets provided by the University. The deliverables documentation included correspondence from University officials to DCI officials and monthly progress reports. The monthly progress reports, for the period October 1999 through June 2001 listed staff activities and products produced for the WtW program. We used the monthly progress reports to determine what activities and products the University's staff reported. The staff timesheets covered the period of May 2000 through June 2001 and were used to determine what type of activities (research, staff meetings, etc.) the University staff worked on.

Because our audit was limited to satisfying our stated objectives, we did not perform a review of controls over performance or financial reporting systems.

Our audit was conducted in accordance with generally accepted government audit standards.

FINDINGS AND RECOMMENDATIONS

1. Proposed scope changes in the city's WtW competitive grant program eliminated the unique and innovative elements that were the bases for the city being awarded a competitive grant.

ETA awarded a WtW competitive grant to the city of San Antonio as part of the round three competitive solicitation of proposals. ETA's solicitation, dated January 26, 1999, appeared in Volume 64, Number 16 of the Federal Register. The notice described the conditions for applications and how ETA would determine which applications will be funded. A high priority was placed on applications that target specific populations, such as individuals with disabilities.

The notice stated: "All competitive grant projects are expected to be *integral parts of a comprehensive strategy* for moving eligible individuals into unsubsidized employment in a *local, community based context*. Projects should develop and implement *innovative* approaches that enhance a *community's ability* to move eligible individuals into self-sustaining employment, create upward mobility paths and higher earnings potential for WtW participants, and achieve sustainable improvements in the *community's service infrastructure* for assisting welfare recipients." [Emphasis added.]

In addition to proposing innovative strategies for moving welfare recipients into unsubsidized employment, applicants were encouraged to consider other service strategies, including "Proactive *strategies to involve employers in design of service strategies* and implementation of the project . . ." [Emphasis added.] Innovation was one of the criteria to be used in rating the applications for the competitive funds.

ETA awarded the grant based on the city's proposal's unique and innovative features. The objectives and goals of the modified grant differ greatly from the original "unique and innovative" proposal. They are so different that the grant modification resulted in the equivalent of a sole source grant using DOL competitive grant funds.

The city's original grant award incorporated the project proposal (project narrative). According to the project narrative, the city and its partners:

. . . propose to provide comprehensive and innovative transitional assistance over a 30-month period to TANF recipients with disabilities and other special learning needs living in its Edgewood neighborhood. Its goals are: (1) long-term economic self-sufficiency through unsubsidized work for these recipients; and (2) *the development of a sustainable, community-based system and infrastructure of information, opportunities, services and supports that will serve as a prototype for enhancing the opportunity of all city residents in or entering the low-wage labor market to escape poverty through work.* . . . [Emphasis added.]

The grant's program goals included four interrelated strategies.

1. A **cooperative** (including a community development **credit union**) will be created to provide a single point of accountability for members (TANF recipients and others in the low-wage labor market).
2. A **comprehensive system and infrastructure** of information, opportunities, services, and supports will move members of the target population towards unsubsidized, self-sustaining work.
3. A **multi-year action plan** will be developed and implemented to expand work opportunities for members of the target population, remove employment barriers, and strengthen employment supports (e.g., substance abuse treatment).
4. An **employer council** will be established to provide advice to the cooperative, expand the comprehensive infrastructure of services and supports, and help implement the multi-year action plan.

The grant stated that three of the four strategies are *highly innovative, if not unique* approaches in assisting TANF recipients reach self-sufficiency. Furthermore, the grant's target population to be served was specific -- *TANF recipients with disabilities and other special learning needs living in its Edgewood neighborhood*.

The key to the original grant award was the creation of the Edgewood Cooperative as a legal entity. The University of Kansas (a contractor) was to provide the expertise and guidance in the creation of the Edgewood Cooperative. Edgewood Cooperative's staff would provide most of the WtW services (e.g., job tutoring, individual assessments, and individual development account contributions). The DCI's staff would coordinate the effort. The Edgewood Cooperative was to be an integral part of the other grant strategies such as the creation of a credit union, the formation of the multi-year plan, and the formation of the employer council.

The city's WtW program never operated as stated in the grant agreement. Instead of creating the Edgewood Cooperative as a legal entity to operate the WtW program, the city created the ASCEND program using city of San Antonio staff to provide the WtW services. According to the city's Office of Internal Review audit report, the WtW program (i.e., the ASCEND program) was not operating as envisioned in the grant agreement and was not meeting its program goals.

The Office of Internal Review's audit report stated:

At the time of our audit work, ASCEND was in the 20th month of the Welfare-to-Work grant period, and the cooperative was not formed, a multi-year action plan was not developed, and an employer council was not established. The cooperative and the employer council were

identified in the Welfare-to-Work grant agreement as critical to the development and implementation of the new system and infrastructure.

The report provided recommendations for addressing the problems noted in the report and realigning the program with its goals. Due to the unfavorable audit report and the local media's criticism of the program, city officials decided to either end the grant or have an outside agency run the program.

ETA was aware of the ASCEND program's problems through ETA's monitoring and media coverage. ETA advised city officials that it was ETA's desire to keep the WtW funds in the San Antonio community rather than returning the funds to DOL. ETA encouraged the city to expand the area of program coverage and to solicit an outside agency to run the program.

The city, in consultation with ETA, decided to end the ASCEND program, to modify the scope of the grant, and to solicit proposals (with a value of \$1.475 million) from outside agencies to run the WtW program. The city would monitor the new service delivery agency. ETA approved the city's modification to significantly change the WtW competitive grant's scope.

The city selected Goodwill Industries of San Antonio as the subrecipient, and the city council approved Goodwill's contract for the period April 2002 through September 2004. The contract is not to exceed \$1.1 million.

As stated previously, the WtW program was not operating as stated in the grant agreement prior to the modification request. The modification request did not remedy that situation. In fact, the modification reduced all four strategies in scope from major roles to minor ones, or excluded them entirely. The most critical deviations from the original grant involved the role of the Edgewood Cooperative and the Employer Council.

The modification request stated the Edgewood Cooperative had been formed but it did not state whether the cooperative is a legal entity. Regardless, according to the modification request, the subrecipient contractor (Goodwill Industries), not the Edgewood Cooperative, will provide the WtW services. The role of the Edgewood Cooperative is not clearly defined and appears to be auxiliary in nature. The modification states the cooperative "may assume the permanent operations of grant activities from the selected Subrecipient contractor **following the end of the grant period.**" [Emphasis added.] Therefore, the key element of the original grant, the Edgewood Cooperative providing a significant role in the WtW program, is still missing from the WtW program.

The creation of the Employer Council is another of the key elements that is no longer in the program. According to the original grant award, the city, the Edgewood Cooperative, and another agency were to work together to create an Employer Council drawing the council members from a diverse group of public and private employers,

especially in the fields of health care, technology, and financial institutions. Among the activities to be provided, the Employer Council would:

- work with project staff, the Alamo Workforce Development Board, and the Cooperative to expand the infrastructure of work-based services and supports to Edgewood residents;
- work with area employers to promote learning at the workplace and modify employee assistance programs to better serve low-wage workers with disabilities and other special learning needs;
- work with project staff to design short-term “bridge training” needed by employees or prospective employees with very low skill levels (part of an overall pre- and post-employment work exploration strategy);
- work with project staff and employers to redesign occupational skills training to integrate basic skills and English-as-a-Second language components; and
- participate actively in developing customized training approaches by identifying groups of employers with common training needs to upgrade the skills of their employees for job retention and/or advancement.

The grant modification request eliminated the creation of the Employer Council. Instead, the modification request planned to utilize the subrecipient contractor’s (Goodwill) existing advisory board and does not include the activities listed above.

The modification significantly changed the scope of the original grant agreement so that the grant no longer contains the unique, innovative features that resulted in its selection from a competitive process.

Recommendations:

In keeping with ETA’s initiative to improve grant accountability, in the future, we recommend the Assistant Secretary for Employment and Training terminate the grant and recover the unused funds when either ETA or the grantee determines that a competitive grantee cannot perform as intended, or its grant goals cannot be achieved. If the grant is terminated within sufficient timeframes (i.e., within the year of initial obligation), ETA should reprogram the returned funds to other successful grantees, or fund new competitive proposals.

Finally, we recommend that the Assistant Secretary require that the city of San Antonio account for the \$.375 million difference between its \$1.475 million solicitation for proposals and the \$1.1 million award to Goodwill Industries to take over the grant operations.

ETA's Response to Our Draft Report

ETA did not respond to the draft report.

OIG's Conclusion

Our recommendations remain unchanged.

2. Contract payments to the University of Kansas were for non-WtW program activities.

After the Office of Internal Review (OIR) issued its audit report, the OIR performed additional audit procedures at the University of Kansas office and audited all of the University's documentation for the University's billings. As a result of that review, the city terminated the University's \$715,000 contract after paying the University \$143,653 of the contract amount.

The University had submitted 14 invoices against the contract totaling \$530,978. Prior to the OIR's audit, the city had paid the University \$130,225.21. After the OIR reviewed the University's invoices and documentation, the OIR determined the University was owed an additional \$13,427.93. Therefore, total amount paid to the University was \$143,653. The majority of expenditures the city did not reimburse were for staff salaries. The city notified the University that additional payment might be made if the University could provide additional documentation -- such as evidence that staff time was properly allocated to WtW activities -- to support the contract's salary charges.

We also audited the University's invoices and deliverables documentation. However, the *focus of our audit was entirely different* from that of the OIR's audit. While the OIR looked at whether costs billed had supporting documentation, OIG's audit concentrated on whether the University's reported WtW activities were *allowable activities as defined by DOL regulations*.

The University of Kansas's contract defined the work that the University of Kansas was to perform for the WtW program. The scope of work (as stated in the "**Performance Impact Plan**" or PIP) was:

1. Provide expertise with the development of the ASCEND Cooperative infrastructure, guidelines and operating procedures; this includes the development of:
 - a. An ongoing assessment: process and the development of a scientifically legitimate Spanish version of a 'tool' used to screen adults for the possibility of learning disabilities.

- b. Guidelines and procedures for supporting Job Tutoring, Employment Support, and Follow-on Services activities.
2. Provide ongoing expertise and guidance in the creation of an ASCEND Credit Union. This is to include:
 - a. Defining initial financial services and [Individual Development Training Account] IDTA structure; preparation of business plan; submission of NCUA application; and the capitalization of credit union and IDTAs.
 - b. Developing a strategy for blending of other funding streams to finance support services for ASCEND members.
 - c. Conducting an economic feasibility study for a Credit Union in the Edgewood neighborhood.
 - d. Assisting in the historical and socio-political analysis of Edgewood's previous credit union.
3. Identify and inform core ASCEND staff of the other models, programs and "best practices" that utilize community cooperatives in a manner complimentary to that of ASCEND.
4. Assist in the development of a Multi-Year Action Plan; including direction and guidance on the collection of member profiles and a member survey; and the identification of needed additional strategies.
5. Quarterly review, with the Project Executive and the Project Director, regarding the projects scope and effectiveness.

In a June 28, 2001, letter, the University's project director proposed to renegotiate the University's contract.¹ He wrote that the activities outlined in the original Performance Impact Plan (PIP) -- the contract's statement of work -- were modified as a result of discussions between DCI and University staff. Therefore, the work in the original PIP became unnecessary. He provided as an example that the original PIP required the University to provide ongoing expertise and guidance in the creation of a credit union. The credit union was not formed; therefore, the economic study, preparation of a business plan, submission of a National Credit Union Association application, and credit union capitalization was not done.

¹ The University's contract period was October 1, 1999, through March 31, 2002. Consequently, the proposal to renegotiate the contract occurred after almost 21 months of the 30-month contract period.

The letter also stated that based on discussions between University and DCI staff and decisions made by DCI, over the past 14 months University staff undertook work that was not specifically outlined in the PIP. The letter stated: “While [University] staff have devoted a substantial amount of time to these activities, this work is not directly reflected in the PIP.”

We reviewed all of the University’s monthly progress reports of its staffs’ WtW contract activities. The reports covered the period of October 1999 (the start of the contract) through June 2001. Most of the activities reported were **research** activities. Among the deliverables provided to the city were concept papers, issue papers, and other materials for non-WtW activities. For example, the University reported research on “best practices” that utilize community cooperatives.

Among the deliverables provided by the University for this research were:

- “The ABC’s of Cooperative Child Care” (in Spanish) by National Cooperative Business Association;
- “Democracy in the Workplace” video by Off Center Video;
- “The Role of Member Education in West Coast Retail Consumer Foods Cooperatives” by Fish; and
- “Guide to Assembling a Director Handbook” by Spatz.

Some of the research activities involved non-DOL funded programs. For example, during a 3-month period the University reported research for an application for JOLI (Job Opportunities for Low-Income Individuals) funds. JOLI funds are awarded by the U.S. Department of Health and Human Services. Furthermore, the application for JOLI funds was for the Project QUEST program. Project QUEST is a San Antonio community-based organization that is not part of the city.

The city had charged the payments to the University to the administrative cost category. According to 20 CFR Section 645.235(c) administrative costs are the costs associated with performing the following functions:

- (1) Performing overall general administrative functions and coordination of those functions under WtW including:
 - (i) Accounting, budgeting, financial and cash management functions;
 - (ii) Procurement and purchasing functions;
 - (iii) Property management functions;
 - (iv) Personnel management functions;
 - (v) Payroll functions;
 - (vi) Coordinating the resolution of findings arising from audits, reviews, investigations and incident reports;
 - (vii) Audit functions;

- (viii) General legal services functions; and
 - (ix) Developing systems and procedures, including information systems, required for these administrative functions.
- (2) Performing oversight and monitoring responsibilities related to administrative functions;
 - (3) Costs of goods and services required for administrative functions of the program, including goods and services such as rental or purchase of equipment, utilities, office supplies, postage, and rental and maintenance of office space;
 - (4) Travel costs incurred for official business in carrying out administrative activities or the overall management of the WtW system; and
 - (5) Costs of information systems related to administrative functions (for example, example, personnel, procurement, purchasing, property management, accounting and payroll systems) including the purchase, systems development and operating costs of such systems.

Based on the shown criteria above, the **research activities** reported by the University **do not meet the definition of administrative costs.**

The other cost classification for WtW is program costs. ETA's notice of solicitation allowed for the following program costs that were identified in 20 CFR Part 645.220 and set forth in the notice of solicitation:

- Job readiness activities;
- Employment activities (work experience, on-the-job training, etc.);
- Job placement services;
- Post-employment services (e.g., occupational skill training, English as a second language);
- Job retention and support services; and
- Individual development accounts.

The notice also stated that intake, assessment, eligibility determination, individual service strategy development, and case management could be incorporated in the above activities.

The research activities reported by the University do not meet the above criteria for program costs.

In addition to the progress reports provided by the University, we reviewed all the University staff invoices that were provided to the Office of Internal Review. According to the University's invoices, the staff charged 11,590 hours to the WtW project for the period May 1, 2000, through June 8, 2001. The hours were charged to the following activities:

ACTIVITY	HOURS	PERCENT
Research	6,268.00	54.08
Paid Leave	1,798.50	15.52
Administration	1,451.75	12.53
Staff Meetings	1, 373.25	11.85
Outside Meetings	454.50	3.92
Site Visits	168.00	1.45
No Description	33.00	0.28
Audit	17.00	0.15
Technical Assistance	13.00	0.11
Special Projects	11.00	0.09
Travel	2.00	0.02
TOTALS	11,590.00	100.00%

Therefore, the majority of staff hours (94 percent) were for research, paid leave, administration, and staff meetings. The remaining activities -- including those that would appear to be more contract related such as site visits and technical assistance -- represented only 6 percent of staff time charged. This further supports that the activities of the University staff were non-WtW allowable activities.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training require the city to reevaluate the \$143,653 paid to the University and determine the portion of the expenditures that were related to actual city grant-related WtW activities. Any payments for costs not related to the grant should be recovered.

ETA’s Response to Our Draft Report

ETA did not respond to the draft report.

OIG’s Conclusion

Our recommendation remains unchanged.