Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING ADMINISTRATION

PERFORMANCE AUDIT OF SOUTH FLORIDA WORKFORCE BOARD WELFARE-TO-WORK FORMULA GRANTS PROGRAM YEARS 1998 AND 1999

Date Issued: September 30, 2004
Report Number: 04-04-002-03-386

Department of Labor
Office of Inspector General
Office of Audit

BRIEFLY...

Highlights of Report Number: 04-04-002-03-386, a Report to the Assistant Secretary for Employment and Training September 30, 2004.

WHY READ THE REPORT

Welfare-to-Work (WtW) legislation, passed by Congress n 1997, authorized the Secretary of Labor to provide $3 billion to states and local communities to help welfare recipients in high poverty areas obtain employment. The South Florida Workforce Board (SFWB) was the largest of 24 designated regional subrecipients authorized to manage WtW programs within the state of Florida.

WHY OIG DID THE AUDIT

OIG audited a $19.8 million WtW Grant provided to the South Florida Workforce Board, (SFWB) in PYs 1998 and 1999 after a review and analysis of its financial and participant reporting data as of March 31, 2002. SFWB's job placement costs were six times higher at $39,409 than the regional average. Our audit objective was to determine whether SFWB managed the Federally funded grant in accordance with WtW legislation, associated regulations, and Office of Management and Budget (OMB) Circulars.

READ THE FULL REPORT

The full report, including the scope, methodology, and agency response is available on:

http://www.oig.dol.gov/public/reports/oa/2004/04-04-002-03-386.pdf

September 2004

SOUTH FLORIDA WORKFORCE BOARD DID NOT ADEQUATELY MANAGE FEDERAL WELFARE-TO-WORK FORMULA GRANTS

WHAT OIG FOUND

OIG found that SFWB did not: (1) have an adequate financial management system and cost allocation plan; (2) verify in-kind contributions of more than $1.8 million, and, therefore, could not use them to satisfy the Federal matching requirement; and (3) meet participant reporting requirements because submissions were inaccurate and unreliable.

WHAT OIG RECOMMENDED

We recommend the Assistant Secretary for ETA require that Florida officials:

- Account for $4.2 million in excess cash returned by SFWB.
- Collect interest lost resulting from unauthorized cash drawdowns.
- Resolve $2.2 million in questioned contract costs.
- Adjust financial management reports to correct a $5.5 million reporting error.
- Ensure that subgrantees establish and implement effective internal controls over financial management systems.
- Remove $1.9 million of in-kind contributions claimed by SFWB.

Finally, we recommended that ETA conduct a quality review and oversight of data entered into participant information systems. SFWB officials have addressed our concerns related to excess cash and the in-kind match contribution. However, SWFB disagreed with our questioning $2.2 million in contract costs and recommending collection of lost interest.

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EXECUTIVE SUMMARY

Welfare-to-Work (WtW) legislation passed in August 1997 authorized the Secretary of Labor to provide $3 billion in WtW grants to states and local communities. These grants were designed to target welfare recipients with the least skills, education, employment experience and those who live in high poverty areas. Congress did not reauthorize the program.

The Office of Inspector General conducted a performance audit of the $19,836,352 Federally-funded WtW Grant provided to the South Florida Workforce Board, (SFWB) under the WtW Formula Grant Program Years 1998 and 1999. SFWB is the largest of 24 designated regional subrecipients authorized to manage WtW programs within the state of Florida. SFWB was judgmentally selected for audit after reviewing and analyzing WtW financial and participant reporting data as of March 31, 2002, submitted by 95 local boards in United States Department of Labor's, (DOL) Employment and Training Administration's (ETA) Southeast Region. The average job placement cost per participant for the combined 95 local boards was $6,383. SFWB's average was six times higher at $39,409.

Our audit objective was to determine whether SFWB managed the Federally-funded grant in accordance with WtW legislation, associated regulations, and Office of Management and Budget (OMB) Circulars describing grantee obligations and responsibilities. To accomplish this objective, we designed our audit tests to answer the following three questions.

- Did SFWB adequately manage WtW formula grant funds?
- Did SFWB satisfy the state's Federal matching requirement?
- Did SFWB comply with mandatory participant reporting requirements by submitting accurate and reliable performance reports?

SFWB did not manage the Federally-funded grant in accordance with WtW legislation, associated regulations and circulars describing subrecipient obligations and responsibilities. Specifically, its financial management system was not adequate and resulted in the mismanagement of WtW formula grant funds; in-kind contributions of $1,857,217 were not verifiable and, therefore, cannot be used to satisfy the Federal matching requirement; and participant reporting requirements were not met because submissions were inaccurate and unreliable.

Finding I

Inadequate Financial Management System Resulted in Mismanagement of WtW Formula Grant Funds

As of June 30, 2002, SFWB officials had drawn approximately $19.8 million from the grant, but only had approximately $7.9 million in expenditures recorded in their general ledger. The $11.9 million difference represented excess cash. In August 2002, SFWB returned $8 million to the State of Florida. We were able to determine that the State of Florida either returned $7.7 million of this to ETA or reduced their statewide drawdown accordingly. In our opinion, this action occurred because the rejection of SFWB's cost allocation process disclosed to management that approximately $11.9 million in excess and unauthorized WtW cash was on-hand. Approximately $4.2 million was not accounted for, and as a result we question these costs. Additionally, as a result of the excess cash drawn, the US Treasury lost $162,059 in interest earnings relating to the excess cash not deposited into an interest bearing account. SFWB provided documentation to support that they returned $4,226,850 to AWI out of WtW grant funds after our fieldwork concluded.

Also, we question contract costs totaling $2,186,404 resulting from costs that could not be supported as serving WtW participants and SFWB's contracting process not meeting Federal competition requirements. Finally, we identified internal control weaknesses related to the untimely preparation of financial statements, unlocated financial reports, grant monies deposited into the wrong bank account, and inaccurate subsidiary ledger entries. These weaknesses in internal controls contributed to a significant error in financial reporting. The June 30, 2002, expenditure report used to track program costs, contained a $5.5 million error that resulted from reported expenditures of approximately $13.5 million compared to general ledger entries of $8 million.

Finding II

Unauthorized and Unsupported In-kind Contributions Resulted in Noncompliance with Florida's Federal Matching Requirement

SFWB's in-kind contribution of $1,857,217, used to help satisfy the state's Federal matching requirement, was not verifiable. Specifically, $855,091 does not meet the requirements for in-kind contribution. The remaining $1,002,126 does not meet the Code of Federal Regulation's (CFR) verifiable and traceable requirement because supporting documents were not retained to substantiate that the match occurred. After our fieldwork ended, the State of Florida has provided documentation that it was able to meet its match requirements without the use of SFWB's contribution.

Finding III

Participant Performance Data Reported to Florida and to ETA Were Unreliable and Inaccurate

SFWB did not comply with mandatory participant reporting requirements. Performance reports submitted to Florida and the DOL-ETA were inaccurate and unreliable. Using statistical estimation techniques, we project 1,173 of the program's 1,410 participants were either misreported on the June 30, 2002, report or their status could not be confirmed because the official participant files were missing. One example of misreporting occurred when participants were reported as served by virtue of being enrolled in the program even though they did not receive any WtW services.

Recommendations

The following recommendations are provided to the Assistant Secretary for Employment and Training:

- To address findings related to an inadequate financial management system, we recommend ETA require Florida officials to account for the $4,201,286 million in excess cash returned by SFWB, collect $162,059 in interest lost resulting from unauthorized cash drawdowns, resolve questioned contract costs totaling $2,186,404, and adjust financial management reports to correct the $5.5 million reporting error. Additionally, we recommend ETA require Florida to take steps necessary to ensure its subgrantees establish and implement effective internal controls over financial management systems involved in managing grant funds.

- To address unauthorized and unsupported in-kind contributions, we recommend ETA take steps to ensure Florida officials remove from their final match $1,857,217 in-kind contribution from SFWB (Region 23). The Assistant Secretary for ETA should also ensure that periodic monitoring of the actual match takes place through program reviews for any future program matches.

- To address unreliable and inaccurate participant performance data, we recommend ETA conduct a comprehensive quality review and oversight of data entered into participant information systems to ensure placements are valid and that data is entered in accordance with program guidance.

SFWB Response SFWB has returned the $4.2 million that was unaccounted for to AWI. In addition, SFWB officials contend that there was no loss of interest to the U.S Treasury because excess funds drawn by the WtW program were offset by amounts under drawn in other Federal programs. Concerning the allocation of one-stop expenses of $2,186,404, SFWB officials assert that all WtW participants were dually enrolled in both WtW and WT and that because they utilized all available WT funds, all expenses incurred for these participants were allowable WtW services. SFWB officials state that they have installed a new accounting system that will address the internal control problems identified. As recommended, AWI officials stated that they will not rely on the in-kind match reported by SFWB. SFWB officials acknowledge that there were participant reporting errors, although they explain that they made a conscious decision not to terminate participants after 90 days as suggested by ETA.

OIG Conclusion SFWB has provided documentation showing that it returned the $4.2 million in excess cash. During the audit resolution process, ETA should verify that AWI officials have returned or reallocated the $4.2 million of WtW excess cash returned by SFWB. Our interest computation on the excess cash was based on bank balances and we continue to question the interest lost. We continue to question the costs allocated through the WWW contracts because distinct WtW services were not competitively bid, were not addressed in the contracts and the allocation method was based on eligible participants rather than services provided. During the audit resolution process, SFWB will need to provide ETA with further details regarding the new accounting system and how it will address the identified internal control deficiencies. To resolve and close our recommendation regarding SFWB's matching contributions, ETA needs to provide documentation showing that AWI has removed the in-kind match reported by SFWB.

Assistant Inspector General's Report

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We conducted a performance audit of the $19,836,352 Federally-funded WtW Formula Grants provided to the South Florida Workforce Board, (SFWB) during Program Years 1998 and 1999. SFWB is the largest of 24 designated regional subrecipients authorized to manage WtW programs within the state of Florida. SFWB was judgmentally selected for audit after reviewing and analyzing WtW financial and participant reporting data as of March 31, 2002, submitted by 95 local boards in ETA's Southeast Region. The average job placement cost per participant for the combined 95 local boards was $6,383. SFWB's average was six times higher at $39,409.

Our audit objective was to determine whether SFWB managed the Federally-funded grant in accordance with WtW legislation, associated regulations, and Office of Management and Budget (OMB) Circulars describing grantee obligations and responsibilities. To accomplish this objective, we designed our audit tests to answer the following three questions.

- Did SFWB adequately manage WtW formula grant funds?
- Did SFWB satisfy the state's Federal matching requirement?
- Did SFWB comply with mandatory participant reporting requirements by submitting accurate and reliable performance reports?

Finding I

Inadequate Financial Management System Resulted in Mismanagement of WtW Formula Grant Funds

As of June 30, 2002, SFWB's cumulative WtW general ledger expenditures totaled $7,922,622 but the cash drawdown by SFWB totaled $19,836,352, representing excess cash of approximately $11.9 million. In August 2002, SFWB returned $8 million to the state of Florida, of which AWI either returned $7.7 million to ETA or reduced their subsequent drawdowns accordingly. However, approximately $4.2 million of the excess cash remained unaccounted for, and, as a result, we question these costs. After the conclusion of audit fieldwork, SFWB provided documentation that supports the return of $4.2 million to the state. (See Finding 1a below.) Furthermore, because this excess cash drawn down was not deposited into an interest bearing account, the US Treasury lost $162,059 in interest. (See Finding 1b below.)

As a result of tests of reported expenditures, we question contract costs of $2,186,404. These costs could not be shown to benefit WtW participants and we determined the contracts did not meet Federal bid and competition requirements. (See Finding 1c below). Finally, we identified internal control weaknesses related to the untimely preparation of financial statements, unlocated financial reports, grant monies deposited into the wrong bank account, and inaccurate subsidiary ledger entries. These weaknesses in internal controls contributed to a significant error discovered in the area of financial reporting. The June 30, 2002, expenditure reports used to track program costs, contained a $5.5 million error resulting in reported expenditures of approximately $13.5 million compared to general ledger entries of about $8 million. (See Finding 1d below.)

Finding 1a: SFWB violated 29 CFR 97.20 by drawing down approximately $11.9 million from the grant without allowable expenses

SFWB's "cash-on-hand" exceeded expenditures by approximately $11.9 million. Drawdowns totaling $19,836,352 as of June 30, 2002, were traced and compared to general ledger[1] total cumulative expenditures[2] of $7,922,622. This represented excess cash of approximately $11.9 million. In general, this occurred because SFWB officials drew down WtW cash based on a flawed cost allocation plan. To better understand this issue, the following paragraphs explain the SFWB board structure, why the allocation plan was devised, why this plan was wrong, Florida's rejection of the SFWB allocation plan, and how the rejection led to financial transaction adjustments of WtW funds. In addition, a discussion is provided regarding the $8 million returned to Florida, and questioned costs totaling $4.2 million.

[1] The SFWB accounting system used a desktop check register to record expenditures into a manually prepared general ledger.

[2] Expenditures represent disbursement and accrual transactions from September 30, 1999 through June 30, 2002.

SFWB Structure. Florida legislation required local organizations, such as SFWB, to combine existing board structures managing Federal grants into a single entity. Accordingly, the Work and Gain Economic Self-Sufficiency (WAGES) Coalition Board managing Health and Human Services Welfare Transition grants and the Job Employment Program managing JTPA, Workforce Investment Act (WIA) and WtW grants were merged into a single board. Even though these grants had various requirements and stipulations, the new board tried to develop a methodology to allocate program and administrative costs among the different programs.

Why the Allocation Plan was devised. Board management developed a strategy to allocate costs based on funds available from each Federal grant program. This strategy enabled SFWB to account for all available funding without regard to the type of grant and any accompanying restrictions or spending rules.

Why this Plan was wrong. Allocating costs to the WtW grant based on funds availability ratios failed to take into account the cost of services actually provided that benefit WtW participants. Therefore, the cost allocation plan used by SFWB violated OMB Circular A-87 that states, "Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived." An equitable cost allocation plan should be designed and implemented based on the respective benefits received from the joint costs. Using funding availability, SFWB allocated to the WtW grant a portion of the costs its subcontractors incurred operating One-Stop centers throughout the region. A percentage of these operating costs were charged to the WtW grant program without regard to the cost of services provided to WtW participants.

Florida's rejection of the SFWB Allocation Plan. The State of Florida's Agency for Workforce Innovations (AWI) did not approve SFWB's original cost allocation plan. Allocating costs based on the amount of funds received from each funding stream was not allowable. Consequently, on February 28, 2002, the region retroactively changed the plan.

How the rejection led to financial transaction adjustments of WtW funds. AWI's rejection of the cost allocation plan resulted in adjustments to SFWB's WtW program costs. After making adjusting journal entries to reflect the correct costs, SFWB recognized expenditures in the amount of $7,922,622 for Program Year (PY) 1998 and no expenditures for PY 1999 as of June 30, 2002.

SFWB returned $8 million but questioned costs remain. In August 2002, SFWB returned $8 million to the State of Florida. We were able to determine that the State of Florida either returned $7.7 million of this amount to ETA or reduced their statewide drawdown. In our opinion, this action occurred because the rejection of SFWB's cost allocation process disclosed to management that approximately $11.9 million in excess and unauthorized WtW cash was on-hand. With the assistance of ETA officials, we traced the funds returned by SFWB and concluded that the State of Florida had either returned most of the monies to the Federal Government or reduced their statewide drawdown (offset). This analysis enabled us to account for an estimated $7.7 million. However, the actual return should have been the total excess cash drawn of $11.9 million . We question the $4.2 million difference between the excess cash drawn down and the $7.7 million returned. After we notified SFWB of this finding, SFWB provided documentation to support a return of $4,226,850 to the State of Florida out of WtW grant funds. However, additional review is necessary to ensure that any subsequent drawdowns were properly accounted for.

Finding 1b: SFWB violated 29 CFR 95.22(k) by depositing grant monies into a non-interest bearing bank account

As discussed above, SFWB made excess drawdowns of WtW funds totaling approximately $11.9 million. These drawdowns cost the United States Treasury $162,059 in interest. SFWB deposited the advanced cash in non-interest bearing accounts. This action violated the 29 CFR 95.22(k), that specifies recipients will maintain advances of Federal funds in interest bearing accounts. This grant requirement was discussed with SFWB officials. These officials stated that as of December 2002, all Federal funds are maintained in an interest bearing bank account.

Finding 1c: SFWB did not meet Federal guidelines to support/allow contract costs of over $2 million.

Audit tests of reported expenditures disclosed contract costs were not identifiable to WtW participants and the contracts did not meet Federal bid and competition requirements. From the period July 1, 2001 to June 30, 2002, WtW was allocated program (contract) costs totaling $2,186,404. We question these costs for two reasons: (1) there is no evidence that eligible WtW participants received allowable services and (2) mandatory procurement requirements set forth in the CFR were not met.

After the passage of WIA in 2000, SFWB competitively procured contractors to operate One-Stop centers. Contractors were paid from WIA and WT funds. A separate competitive procurement process was initiated to administer SFWB's Publicly Funded Jobs Program with the intent to implement WtW using formula grant funds. In a memorandum dated January 24, 2001, the Executive Director of SFWB noted that very little WtW funds had been spent and recommended actions to use more of this available funding stream. As a result, on July 1, 2001, SFWB established a consolidated contracts environment, also referred to as "WWW." In this environment, the WtW funding stream was merged with the preexisting WIA and WT contracts to operate the One-Stop Centers.

The SFWB does not address directly whether participants were receiving WTW services but rather contends that they enrolled eligible participants in the WT and WtW programs simultaneously and that WtW funds were used only after WT funds had been exhausted. Once WtW funds were combined under the WWW contracts, we were unable to determine whether WtW participants were receiving job retention and support services as provided by the WtW regulations, other than $1,406 in supportive services.

There is no evidence that eligible WtW participants received allowable services. After reviewing SFWB's consolidated contracts and participant files, we were unable to identify WtW services provided to individuals. Since all the funds in question were used to pay different subcontractors, we contacted 25 subcontractors and determined how many participants they served and how these services were tracked. Our results are summarized below.

- Ten subcontractors stated that they did not have any WtW participants under the WWW contracts.

- Thirteen subcontractors reported "dual" participant enrollments, individuals enrolled in both WT and WtW. Eleven of these subcontractors did not provide participants any distinct WtW services, as required for enrollment in WtW. The two remaining subcontractors provided supportive services to WtW participants totaling $1,406. These costs were directly charged to the WtW program.

- Two subcontractors were no longer in business. We were, therefore, unable to obtain a count of any WtW participants served.

Billed services should be directly allocated to a program activity or service and reported for the program that derives the benefit. According to the regulations cited at 20 CFR 645.425 (b)(4), SFWB is responsible for ensuring "that funds are expended on eligible recipients and on allowable activities. . . ." Program costs at a subrecipient level should be directly allocated to an activity or service. With the exception of the $1,406 expended on supportive services to WtW participants, SFWB has not met the intent or rule of the CFR. We concluded subcontractors did not identify WtW recipients and as a result, it is unknown whether funds were expended on allowable WtW activities.

Mandatory procurement requirements set forth in the CFR were not met. On July 1, 2001, SFWB merged the WtW funding stream with the pre-existing WIA and WT contracts to operate One-Stop Centers in a consolidated contracts environment (WWW). However, SFWB did not recompete or even modify their existing contracts. In addition, the WWW contracts did not address three critical WtW-specific elements: performance goals, a budget, and program deliverables. The newly created environment used WtW funds to pay for an allocated portion of WWW contracts, but did not distinguish WtW as a separate program.

Based on the SFWB Executive Director's January 2001 memorandum, we concluded that the competitive procurement process called for in the CFR was intentionally circumvented. His January 2001 memorandum said:

> For . . . the WtW Publicly Funded Jobs Program to be accessed through all one-stops with all Service Providers inside one-stops able to draw on these funds and given significant enough incentives to insure that they would be widely used, we would need to have a legal means to have a WtW fund pool accessible to all of those Service Providers (without their competing for them). . . . The issue here is that they competed under a WIA/Welfare Transition funding procurement process and we are trying to use the outcomes of that process to provide access to a different funding stream (WtW).

Procurement by noncompetitive means can be allowed when any one of the following four rules pursuant to 29 CFR 97.36(d)(4) are met: an item is available from only one source; public emergency; authorization of noncompetitive proposals; or after the solicitation, competition is considered inadequate. Additionally a cost analysis is required. SFWB did not meet the aforementioned guidelines.

In conclusion, we question the $2,186,404 in contract costs charged to the WtW program because these costs could not be associated to WtW participants and we determined the contracts did not meet Federal bid and competition requirements.

Finding 1d: Noted Weaknesses in SFWB's System of Internal Controls

Tests of SFWB's financial records disclosed four problems. Specifically, financial statements were not closed and prepared in a timely manner, prior period financial reports sent to Florida were missing, formula grant monies were deposited into the wrong accounts, and some subsidiary ledger entries were wrong. These weaknesses in internal controls contributed to a significant error discovered in the area of financial reporting. The June 30, 2002, expenditure reports used to track program costs, contained a $5.5 million error resulting in reported expenditures of approximately $13.5 million compared to general ledger entries of about $8 million. Details related to these internal control weaknesses are presented below.

Financial statements were not closed and prepared in a timely manner. SFWB had not prepared its FY 2002 financial statements nine months after the FY ended on June 30, 2002. According to 20 CFR 645.240(c), financial reports are due no later than 45 days after the end of each quarter. SFWB did not have an automated accounting system to manage WtW Federal funds. Instead, various desktop computer programs were used to store financial transactions. SFWB was able to manually prepare a trial balance, but could not prepare a year-end consolidated general ledger. The lack of an automated accounting system to process transactions significantly contributed to delays in preparing the FY 2002 financial statements. Moreover, SFWB's reliance on a manual accounting system also resulted in financial record errors discussed later in this report.

20 CFR 645.425(a)(14) specifies that the state is responsible for establishing internal reporting requirements to ensure Federal reports are accurate, complete, and submitted on a timely basis. This regulation implies that records should adequately identify the funding source and its application for financially assisted activities. The lack of adequate records indicates a weakness of internal accounting control regarding assurances of proper accountability for all grant funds, and the controls for adequately managing the WtW program.

Prior period financial reports sent to Florida were missing. We were unable to reconcile expenditures reported on the SFWB expenditure reports for all quarters prior to the quarter ended March 31, 2002. These expenditure reports were deleted from the State Management Information System, (MIS) and no hard copy reports were available. Section 20 CFR 97.42(b)(1) specifies that all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees that are considered pertinent to a program regulation or grant agreement, must be retained for three years.

Historical records provide management with the tools to compare variances between reported time periods. The lack of historical reports indicates a weakness in internal managerial controls in the areas of budgeting and proper custody of records. It also indicates lack of compliance with 20 CFR 645(a)(14) related to fiscal control and accounting procedures of the State, as well as its sub-grantees. Accounting procedures should be sufficient to permit preparation of reports and the tracing of funds to ensure compliance with applicable statutes.

Formula grant monies were deposited into the wrong account. The WtW cash balance was understated on June 30, 2002, because $292,487 of WtW funds was erroneously deposited into the Welfare Transition account. Our analysis of $16,526,298 drawn down between July 2001 and June 2002 disclosed only $16,223,811 was deposited into the WtW account. The missing funds were traced to a drawdown on February 13, 2002, in the amount of $2,502,221, of which only $2,209,734 was credited to the WtW account.

The recipient must be able to account for receipt, obligation and expenditure of the fund, as indicated in 29 CFR 95.22(i)(1). Failure to maintain accurate cash records can result in unauthorized expenditures and in poor management decisions regarding requests for cash drawdowns.

After we informed management of this problem, corrective action was taken to return the $292,487 to the WtW bank account.

Subsidiary ledger entries were wrong. Our review of 379 disbursements[3] totaling $19,121,476 disclosed 6 subsidiary ledger entries were wrong. The net effect of these errors totaled $62,385; however, the incorrectly posted entries totaled $159,565. SFWB did not detect disbursement errors because it did not use a periodic reconciliation process to identify and correct mistakes. Details of the errors we detected using a reconciliation process follow:

- Two advance[4] payments made to ACS/Lockheed in the amounts of $40,525 and $19,403 were not recorded in the subsidiary ledger.

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[3] The disbursements covered the period January 2002 to March 2002.

[4] Service providers were paid on an advance system based on biweekly cash requests.

Therefore, ACS/Lockheed's cash advance balance in the subsidiary ledger was understated by $59,928.

- An advance payment in the amount of $24,295 issued to Sullivan & Cogliano was not recorded in their subsidiary ledger account. However, $24,295 was incorrectly recorded in the ACS/Lockheed account and $24,295 was also incorrectly recorded in the New Alternatives' subsidiary ledger account. The net effect was an overstatement of cash advances totaling $24,295 and misstatements in three subsidiary ledgers totaling $72,885.

- An intended advance payment made to TTI in the amount of $26,752 was not recorded in their subsidiary ledger account. However, when the check was voided, the proposed advanced cash amount was reduced in the subsidiary ledger. By only posting the voided check and not the original issuance, TTI's subsidiary ledger was understated by $26,752.

SFWB's expenditure reports contained a $5.5 million error. These weaknesses in internal controls contributed to a significant error discovered in the area of financial reporting. The June 30, 2002, expenditure reports used to track program costs, contained a $5.5 million error resulting in reported expenditures of approximately $13.5 million compared to general ledger entries of about $8 million.

As of June 30, 2002, WtW expenditures identified in the general ledger totaled $7,922,622, but the amount reported to the State of Florida was $13,418,322, representing an overstatement[5] of program expenditures totaling $5,495,700. The misreporting occurred because financial adjustments were made after June 30, 2002, revising WtW charges downward by $5,495,700. However, SFWB officials did not amend their previously reported expenditures. The adjustments were required because SFWB's original cost allocation plan, as previously discussed, was rejected. After Florida informed SFWB officials of the rejection, a portion of the previous charges that should not have been borne by WtW were adjusted on the general ledger but not on the expenditure reports.

Florida combines program expenditure reports for all state workforce boards, such as SFWB, and prepares a Financial Status Report (FSR) each quarter. ETA

[5] The audit was designed to examine all WtW grants provided to SFWB. They received grants in PY 1998 and 1999. The overstatements of expenses were $3,212,884 and $2,282,816 for PY 1998 and PY 1999 respectively, totaling $5,495,700.

relies upon reported financial data to monitor the financial position of WtW grant recipients. According to 20 CFR Part 645.240(c), "Each grant recipient must submit financial reports to the Department *(ETA)*. Reported expenditures and program income must be on the accrual basis of accounting and cumulative by fiscal year of appropriation." Without accurate information reported on the FSR, ETA's ability to monitor active grants is inhibited.

Conclusion

SFWB did not fulfill its stewardship responsibilities necessary to manage Federal funds provided by WtW legislation. Specifically, officials drew down cash without required expenses. Additionally, SFWB implemented a plan to acquire Federal funds that did not comply with the CFR requirements to establish and maintain funds accountability using a sound financial management system. Of the approximately $19.8 million in WtW funds drawn down by SFWB, we question financial transactions totaling $6.6 million.

Recommendations

We recommend that the Assistant Secretary for Employment and Training take the following actions:

Recommendation 1. Ensure Florida officials have taken steps to return or reallocate the $4.2 million of WtW excess cash returned by SFWB.

Recommendation 2. Ensure that any additional WtW funds that may have been spent by SFWB were expended in accordance with legislative intent and that any funds allocated to joint costs were allocated in accordance with an approved allocation plan.

Recommendation 3. Collect $162,059 in accrued interest from the grantee and deposit these funds into the U.S. Treasury.

Recommendation 4. Disallow and recover questioned costs of $2,186,404 charged to the WtW program because these costs could not be associated to WtW participants and SFWB's contracts did not meet Federal bid and competition requirements.

Recommendation 5. Require Florida officials to adjust future FSRs to reflect the $5.5 million overstatement reported on their June 30, 2002, Financial Status Report.

Recommendation 6. Require Florida officials to take steps necessary to ensure its subgrantees establish and implement effective internal controls over financial management systems involved in managing grant funds.

SFWB Response

During the August 26, 2004 meeting with OIG, SFWB officials produced copies of check numbers 015303 dated May 5, 2001, and 012034 dated October 30, 2003, documenting the return of the questioned $4.2 million to the state of Florida.

Although SFWB agreed that interest was not earned on WtW funds prior to December 2002, they believe that there was no net effect to the Federal Treasury. As the audit report points out, due to discrepancies in the way indirect costs were allocated to WtW, more WtW cash was drawn than should have been. However, SFWB contends that other Federal grant programs were under drawn, thereby allowing this cash to remain in the Treasury to earn interest, which should have offset the interest lost on WtW funds. SFWB has requested that the OIG consider this compensating factor and eliminate the issue of interest repayment.

SFWB's position concerning WtW services is that WtW participants and Welfare Transition ("WT") participants were dually enrolled as allowed by Federal Regulations (20CFR § 645.220). The services allowable under the WT program were also allowable under WtW. The One-Stop system had gone through a competitive contracting process for the WT and WIA programs. The WtW program was brought into the service array – WIA, WT and WtW – to provide a full integration of all programs. SFWB stated that, in compliance with applicable regulations, WT dollars were utilized first to provide services to the dually enrolled participants. The total amount spent on services for the dually enrolled population exceeded the annual WT allocation SFWB was able to draw upon. As previously stated in its response dated August 13, 2003, SFWB records reflect that, except for the Florida Keys, all one-stop locations had active WtW participants. Neither Miami Dade Community College (MDCC) nor Miami Dade County Public Schools (MDCPS) were one-stop operators. They functioned as resource centers assisting participants who were in the caseloads of the one-stops and who were receiving training on their campuses. SFWB urges the OIG to reconsider the use of these issues as basis for questioning all WtW costs for FYs 2001 and 2002. SFWB does not believe that the weaknesses cited by the OIG rise to the level that justifies such a conclusion.

SFWB officials also stated that, prior to the implementation of the Micro Information Products (MIP) accounting system on July 1, 2002, SFWB did not have an effective automated accounting system. SFWB asserts that the internal control weaknesses that are cited have been addressed. The incorrect financial reporting was addressed during SFWB's annual audit and the accounting records were corrected.

OIG Conclusion

The OIG has received documentation supporting SFWB's contention that $4,226,850 was returned to the State of Florida after our fieldwork concluded. We continue to classify those costs as questioned. During the audit resolution process, ETA should ensure Florida officials have taken steps to return or reallocate the $4.2 million of WtW excess cash returned by SFWB.

SFWB contends that although no interest was earned on the excess cash prior to 2002, the net effect was no loss of interest to the Federal Treasury because other federal programs were under drawn. However, our computations were based on bank statements showing excess bank balances for the WtW program and consolidated bank accounts. Our recommendation is unchanged.

SFWB also contends that WtW participants were dually enrolled and that WtW funds were only used after WT funds were exhausted. In August 2003, correspondence submitted by SFWB indicates WtW funds were not used until Welfare Transition Funds were exhausted and that services allowable under WT are also allowable under WtW. However, WtW funds were drawn throughout PY 2001 prior to the WT funds being exhausted.

Further, the SFWB does not address directly whether participants were receiving WTW services but rather contends that they enrolled eligible participants in the Welfare Transition and WtW programs simultaneously and that WtW funds were used only after Welfare Transition funds had been exhausted. Once WtW funds were combined under the WWW contracts, we were unable to satisfy whether WtW participants were receiving job retention and support services as provided by the WtW regulations, other than $1,406 in supportive services.

In addition, the allocation method used to support the $2,186,404 in WtW charges under the WWW contracts was based on the number of eligible participants rather than the number of participants actually served. Consequently, even if all the one-stop costs incurred were allowable WtW activities, the allocation should be based on WtW identified participants that were provided allowable WtW services, in accordance with 20 CFR 645.220.

SFWB also contends that since participants were dually enrolled, the One-Stop system which had gone through a competitive process for the WT and WIA programs had the WtW program integrated in the service array for full integration of all programs. Our position continues to be that the WtW has unique requirements. By attaching the funding stream onto existing contracts without specifying the WtW services required, SFWB did not ensure the unique features of the WtW program were considered by the service providers. Recommendation number 4 remains unchanged.

Finally, SFWB asserts that the implementation of the Micro Information Products (MIP) accounting system on July 1, 2002, has addressed the internal control weaknesses in our report. SFWB also states that the incorrect financial reporting has been addressed and accounting records corrected. SFWB needs to provide ETA with documentation to support these assertions during the audit resolution process.

Finding II

Unauthorized and Unsupported In-kind Contributions Resulted in Noncompliance with Florida's Federal Matching Requirement

For expenditures to qualify as matching funds, the contributions must meet the requirements of both 29 CFR 97.24(b)(6) and 20 CFR 645.300(c)(7). The regulations provide that cost and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be allowable and verifiable. State records show SFWB committed to contribute in-kind services valued at $1,857,217 as a portion of the overall Florida match requirement.[6] However, SFWB's in-kind contribution does not meet the intent of the CFR for two reasons. First, $855,091 of the match lacked propriety because SFWB's estimated in-kind services were not allowable. Second, supporting documents were not retained to substantiate that the remaining $1,002,126 of the match occurred.

Florida officials also recognized the Federal requirement for matches to be supported. As a supplement to Florida's request for a formula grant extension, Florida submitted a letter to ETA dated July 3, 2001, detailing the State's understanding of the principles required in the WtW match process. The first principle specified that the match be verifiable and traceable. The services SFWB estimated to contribute toward the in-kind match requirement were the value of bus pass discounts, reduced community college tuition, supervisory salaries and benefits incurred by nonprofit and governmental entities, and the cost to produce payroll checks for participants. Tests conducted of SFWB's estimates along with our analysis are discussed below.

Bus pass discounts from the Miami-Dade Transit Agency accounted for an estimated $90,000. We could not substantiate the appropriateness of any of this reported in-kind contribution. The amount was computed under the assumption 250 WtW participants would each need 12 monthly bus passes, discounted by $30 per pass. However, the actual number of discounted bus passes used by WtW participants was not monitored or reported.

Reduced tuition at Dade County public school and Miami Dade community college accounted for an estimated $497,767 in-kind contribution. We could not substantiate the appropriateness of this reported in-kind contribution. SFWB

[6] The overall Florida match was originally estimated at $49 million, of which approximately $8.6 million consisted of in-kind contributions. Our audit tests only address the SFWB portion of the match in excess of $1.8 million. The SFWB match consisted totally of in-kind contributions identified between January 2001 and December 2001.

officials estimated 232 participants would attend classes at a reduced tuition. The tuition charged to WtW participants was estimated to average $2,146 less per student than the amount charged to the general public, but the tuition discount was not supported by a method of the computation or other supporting documentation. The actual number of WtW participants enrolled as students at Miami Dade Community College was not provided.

Supervisory salaries and benefits incurred by nonprofit and governmental entities that employed WtW participants accounted for an estimated $1,249,950 in-kind contribution. We could not substantiate the appropriateness of this reported in-kind contribution. The estimate was based on 250 participants requiring supervision for 5 hours per week, 52 weeks per year and using a supervisory salary and fringe benefit rate of $19.23 per hour. This estimate had three different problems.

First, 29 CFR 97.24(c)(2) requires the services of an employee (in the employee's normal line of work) furnished free of charge to be valued at the employee's regular rate of pay exclusive of the employee's fringe benefits and overhead costs. Using an adjusted hourly rate of $13.65 per hour[7] to eliminate fringe benefits, $362,486 should not have been submitted as an in-kind match.

Second, SFWB estimated participants would receive 5 hours supervision per week, 52 weeks a year. However, there are two faulty assumptions with the estimate. First, each participant received supervision for 3 days per week; the remaining 2 days participants received classroom training. Since the SFWB estimated that 1 hour of supervision would be required each day, its estimate was overstated for the days participants were in the classroom. Second, a participant can only be in the program for 39 weeks. Since SFWB developed its estimate using 52 weeks per participant, this estimate was also overstated. In total,[8] these two factors resulted in SFWB's estimate overstating the in-kind match by $488,105.

Third, documentation to support the actual number of WtW participants that received supervision and the hours of supervision received was not provided. As a result, we could not substantiate the remainder of this reported in-kind contribution totaling $399,359.

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[7] The percentage of fringe benefits and overhead costs obtained from the Department of Labor's Bureau of Labor Statistics web site was 29 percent. The adjusted salary without the fringe benefits and overhead was $19.23 times 71 percent, which amounted to $13.6533, the amount used in subsequent calculations.

[8] The calculation of $488,105 takes the original SFWB estimate of $1,249,950 removes the unauthorized fringe benefits and overhead costs of $362,486, and further reduces the estimate by $399,359 to correct the overstatement of weeks (from 52 to 39) and hours (from 5 to 3).

The cost to produce payroll checks for participants was estimated at a $19,500 in-kind contribution. SFWB estimated 250 WtW participants would receive 26 biweekly checks at a cost of $3 per check. Although we agree participants did receive checks, and that SFWB did contribute an in-kind match, the maximum period a participant would be in the program is 39 weeks. This results in an overstatement[9] of their estimate by $4,500. However, because SFWB officials did not provide traceable and verifiable documentation of the in-kind costs incurred, we also question the remaining $15,000 contribution.

Conclusion

SFWB's estimated in-kind contribution to meet the State's Federal matching requirement does not meet the intent of the CFR. Specifically, $855,091 of SFWB's estimate is not allowable. The remaining $1,002,126 does not meet the code's verifiable and traceable requirement because supporting documents were not retained to substantiate that the match occurred. As a result, we question $1,857,217 in costs. In response to this issue, SFWB did not initially provide additional documentation to support the in-kind contribution. However, subsequent to the end of audit fieldwork, AWI determined that the State overall has met the match commitment and that the SFWB committed match does not need to be considered in covering the statewide match.

Recommendations

We recommend that the Assistant Secretary for Employment and Training take the following actions:

Recommendation 7. Take steps to ensure Florida officials have removed from their final match submission the unallowable $1,857,217 in-kind contribution from SFWB (Region 23).

Recommendation 8. Ensure that periodic monitoring of the actual match takes place through program reviews for any future program matches. Specifically, require adequate documentation be maintained so that the match is verifiable and ensure that the match is allowable.

[9] We computed the overstatement by taking the 26 biweekly pay periods in the original estimate and reducing it to 20 pay periods.

SFWB Response

SFWB maintains that it did meet its match requirement through discounted bus passes to eligible WtW participants, reduced tuition at the local community college, supervisory staff time costs to supervise WtW participants who were employed, and the costs associated with processing WtW participant payrolls. SFWB acknowledges that there were record keeping issues that may impact the allowability of these items as matching contributions subsequent to their being reported.

As stated in the finding, the Agency for Workforce Innovation documented that the state had ample match expenses to offset any SFWB match shortfall due to poor record keeping.

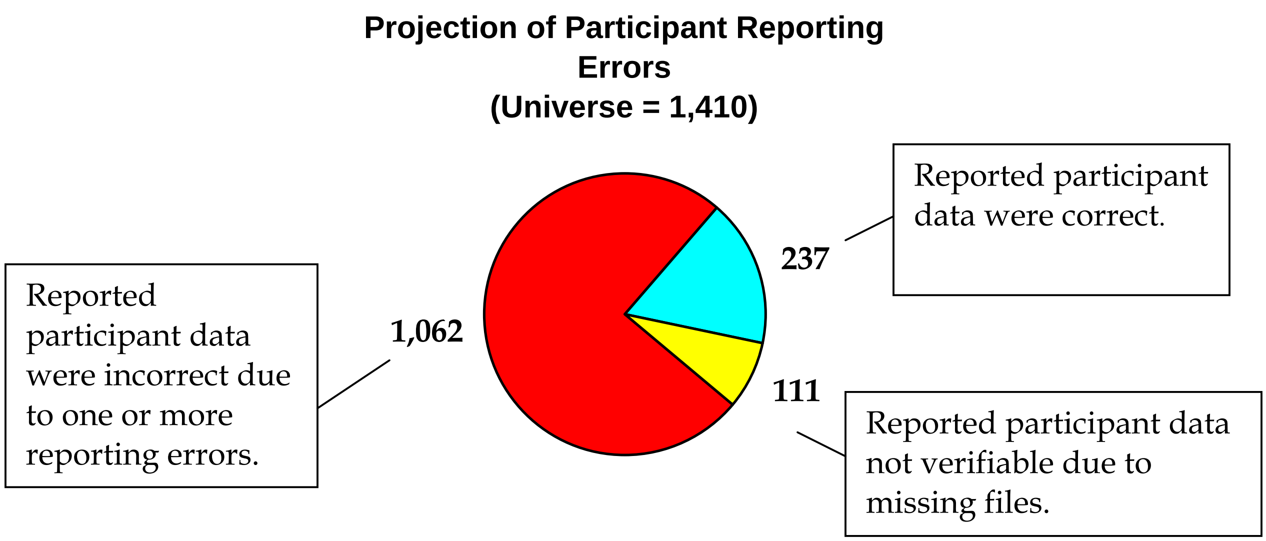
OIG Conclusion

SFWB indicates AWI has removed the $1,857,217 used to help satisfy the State's federal matching requirement from its submission as we had recommended. This action is consistent with our recommendation; however, the action should be reviewed and documented by ETA during the audit resolution process.

Finding III

Participant Performance Data Reported to Florida and to ETA Were Unreliable and Inaccurate

Using statistical estimation techniques, we project 1,173 of the program's 1,410 participants were either misreported on the June 30, 2002 report or their status could not be confirmed because the participants' official files were missing.[10] We estimate the number of missing or misreported files to be between 1,005 and 1,341 at a 90 percent confidence level. The magnitude of these errors can be seen in the pie chart below that uses a mid-point projection.



State formula grant recipients must report participant data in accordance with instructions issued by the ETA. Reported data must be submitted as a component of the quarterly Federal Participant Summary Report (FPSR). Information in each quarterly report includes number of participants served, number terminated from the program, how many participants were placed in both subsidized and unsubsidized employment, how many participants retained a job for 6 months, and how many had received increased earnings from their jobs.

[10] This projection is based on a total 89 randomly selected files. We statistically selected 82 files. We then added seven randomly selected replacement files after seven of the originally selected files could not be located.

We randomly selected 89 participants for testing. We then validated their reported status on SFWB's FPSR to supporting documentation in participants' official files. In total, we identified 101 instances[11] where the reported information on FPSR line items 24 through 29 was incorrect. Data from the FPSR are combined with data from other Workforce Boards to prepare a summary of participant data as part of the FSR. A detailed analysis by FPSR line items follows, as well as a discussion regarding missing participant files. Additional audit tests confirmed that TANF participants had received mandatory in-depth assessments and were eligible to receive WtW services.

Item 24 - Total Participants Served

Thirty-four individuals were incorrectly reported as served. Using statistical estimation techniques with a 90 percent confidence level, we estimate the June 30, 2002, FPSR incorrectly reported between 422 and 655 individuals as served. Our review of the official files disclosed that these individuals were WtW eligible and received WIA or WT services, but not WtW services.

In all 34 instances, SFWB reported individuals that were eligible to receive WtW services as "Participants Served" on Item 24 even though no WtW services were received[12]. ETA's reporting guidelines prohibit this practice and state, "an individual is classified as a 'participant served' when the participant receives one or more of the WtW allowable services." The reporting guidelines specifically state that "Intake, initial assessment, and eligibility determination do NOT constitute 'participant served' status for an individual."

Item 25 - Total Participants Terminated

Twenty-one participants met the ETA guideline to be reported as terminated, but were omitted from the FPSR. Using statistical estimation techniques with a 90 percent confidence level, we estimate between 231 and 435 participants should have been, but were not, reported as terminated on the June 30, 2002, FPSR.

SFWB stated that these 21 individuals were "purposely not terminated" because they had not achieved economic self-sufficiency and were still eligible to receive WtW support services. However, ETA's suggested guideline states that participants should be reported as terminated if no contact has been made with the individual in 90 days. All 21 of the participants meet this criterion. Eleven of

[11] Some participants were reported incorrectly on more than one FPSR line item.
[12] SFWB established this practice under the consolidated contract environment beginning July 1, 2001.

these 21 participants were terminated in the following quarterly FPSR on September 30, 2002. The remaining 10 participants received services under the Publicly Funded Jobs Program strategy that was discontinued 1 year earlier on June 30, 2001.

Item 26 - Placed in Unsubsidized Employment

Ten participants were either incorrectly reported on or omitted from Item 26, Placed in Unsubsidized Employment. Five participants were shown as placed; however, there was no supporting documentation to substantiate unsubsidized placements. The remaining five participants had documentation supporting an unsubsidized placement, yet those individuals were not reported on the FPSR.

Item 27 - Employed in Unsubsidized Employment When Entering WtW

Two participants were employed in unsubsidized employment when entering WtW; however, neither was reported. To illustrate, one participant file contained case manager notes stating "cannot claim placement due to: The job started before the program start date." In both instances the participants should have been reported on Item 27, but were not.

Item 28 - Placed in Subsidized Employment

Twenty-eight participants were incorrectly reported as placed in subsidized employment. Using statistical estimation techniques with a 90 percent confidence level, we estimate between 333 and 556 participants were reported on Item 28 in error.

According to ETA's Instructions for Reporting Welfare to Work Formula Grants Financial and Participant Data, all WtW participants should be included on line item 28 who "are placed in subsidized jobs for which the wage subsidy is less than 100% of the participant's total income."

The aforementioned 28 participants each received 100 percent of their wages from WtW. Their activities at government agencies and nonprofit organizations should have been considered training activities because participant wages were totally funded by WtW. Therefore, none of these 28 participants should have been reported on Item 28, Placed in Subsidized Employment.

Item 29 - Retained Six Months (two quarters) in Unsubsidized Employment

Six participants were incorrectly reported on or omitted from Item 29, Retained 6 Months (two quarters) in Unsubsidized Employment. Two participants were reported as retained but had not met the two quarters job retention test. The remaining four participants met the reporting requirement for unsubsidized employment but were not entered[13] on the SFWB FPSR.

Official Participant Files Were Missing

Seven of the original 82 participant files were missing and required replacement selection. According to SFWB, "The service providers holding these files were given multiple requests for the files, but failed to comply." The majority of the files were from the City of Miami, a provider whose contract was terminated. Based on the unavailability of these 7 participant files, it is estimated 111 are missing from a universe of 1,410. SFWB is in violation of 29 CFR 97.42, which specifies that all records pertinent to an award must be retained for 3 years from the date of the final expenditure report.

Conclusion

SFWB's participant reporting did not comply with ETA's reporting guidelines. Improved validity of program data must be addressed. Performance driven requirements demand accurate and complete program data. Reliable data are also necessary to measure the program's outcomes and to assist program officials and Congress in setting the direction and emphasis of employment and training programs. Care should be taken when reporting results of participants included in multiple programs such as TANF and WtW to ensure reports strictly adhere with reporting guidelines and duplicate counting is properly disclosed. ETA did not conduct monitoring visits of the WtW program at SFWB. AWI had conducted two monitoring visits as of our cutoff date of June 30, 2002, and identified significant problems with participant files. Corrective action taken was not adequate to alleviate the problems prior to our audit.

Recommendation

We recommend that the Assistant Secretary for Employment and Training take the following action:

Recommendation 9. Require ETA staff to complete periodic comprehensive quality review and oversight of data entered into participant information systems to ensure placements are valid and that data are entered in accordance

[13] The information reported of Item 29 is provided by the State of Florida (to Region 23) using employment data from quarterly Unemployment Insurance (UI) reports. Our tests were not designed to assess Florida UI operations, and consequently do address how these errors occurred.

with program guidance and are accurate and complete. The reviews should be completed at the data point-of-entry, as well as at entities responsible for consolidating the information.

SFWB Response

SFWB acknowledges that seven of 82 participant files that were requested from contracted service providers could not be produced. The majority of the missing files were from one service provider, the City of Miami, who received multiple requests from SFWB to produce the files. At the time of the request, the City of Miami was no longer a service provider for SFWB and may not have given the requests sufficient priority. SFWB does not agree that the number of files the City of Miami failed to produce should be extrapolated to the universe because these results are an exception from our normal experience with our service providers.

The 34 participants identified as not having received WtW services were in fact dually enrolled and provided services.

The 21 individuals with no services for over 90 days were purposely not terminated due to our understanding that they could receive support services, placement assistance, etc as they had not achieved economic sufficiency. It was not our interpretation of ETA's suggested guidelines that these participants had to be terminated after 90 days since they were eligible for continued services.

SFWB acknowledges that clerical errors were made in reporting participant data.

OIG Conclusion

Because our sample was randomly selected, we believe it is appropriate to project the results of missing files over the universe. We believe we have adequately disclosed that most the files were from one provider.

Concerning the participants incorrectly reported as served, the OIG recognizes a distinction between enrolling participants and serving participants. ETA's reporting guidelines state, "an individual is classified as a 'participant served' when the participant receives one or more of the WtW allowable services." The reporting guidelines specifically state that "Intake, initial assessment, and eligibility determination do NOT constitute 'participant served' status for an individual."

The OIG acknowledges SFWB decision not to terminate participants after 90 days because the 90 day criteria was "suggested" rather than "required".

Elliot P. Lewis

Elliot P. Lewis
May 13, 2004

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EXHIBIT

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EXHIBIT A

SCHEDULE OF QUESTIONED COSTS			
DESCRIPTION			**AMOUNT**
Excess Cash on Hand as of July, 28, 2003, reference page 6			$4,201,286
29 CFR 95.22(b)(2)			
Interest Income Lost Due to Excess Cash Balances, reference page 6			162,059
29 CFR 95.22(k)			
Contract Costs Not Identifiable With WtW Participants, reference page 6			2,186,404
20 CFR 645.425(b)(4)			
Unsupported In-Kind Match , reference page 13			
29 CFR 97.24(b)(6) and 20 CFR 645.300(c)(7)	Not Verifiable	$1,002,126	
29 CFR 97.24(c)(2) and 20 CFR 645.300(d)(2)	Fringe Benefits	362,486	
Contract Violation – Excess number of hours	Supervisory Hours	488,105	
Contract Violation – Excess number of weeks	Payroll Processing	4,500	
			1,857,217
		TOTAL QUESTIONED COSTS	**$8,406,966**

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APPENDICES

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Appendix A

BACKGROUND

Welfare-to-Work (WtW) legislation passed in August 1997, authorized the Secretary of Labor to provide $3 billion in WtW grants to states and local communities.[14] These grants are designed to target welfare recipients with the least skills, education, employment experience and those who live in high poverty areas. In fact, WtW is specifically designed to supplement the Temporary Assistance for Needy Families (TANF) program managed by the Department of Health and Human Services. WtW funding strives to provide transitional assistance by helping hard-to-employ TANF welfare recipients and eligible noncustodial parents find unsubsidized jobs and achieve economic self-sufficiency.

To receive WtW formula grant funds, a state submits a plan to administer a WtW program. State requests define the targeted population they plan to help, and list each regional location within their state designated to participate. The Secretary of Labor then determines whether or not the plan meets all statutory requirements and approves or disapproves each grant award accordingly. Through June 30, 2002, Florida was allotted over $98 million in Welfare to WtW formula grant funds and passed through over $83 million to subgrantees. The grant funds were allocated among Florida's 24 participating regions with the largest amount ($25,664,897) authorized to Region 23 - SFWB. SFWB also manages other federally-funded grants such as TANF and WIA.

Subgrantees designated by the State to receive formula grants, such as SFWB, assume all responsibilities required to manage the Federal funds. Specific grant program responsibilities are defined in the CFR and associated OMB Circulars. Three areas key to each WtW formula grant include financial management, Federal funds matching requirement, and participant reporting.

- **Financial Management.** According to 29 CFR 95.22, WtW cash advances must be maintained in interest bearing accounts, and the drawdown of excess cash is prohibited. Furthermore, fiscal control and accounting procedures must be sufficient to permit the preparation of accurate FSR(s) due at the end of each quarter, and permit the tracing of funds to all

[14] A total of $3 billion had been appropriated for this program: $1.5 billion awarded for FY 1998 and $1.5 billion for FY 1999. There are two kinds of grants: (1) formula grants to states and (2) competitive grants directly to local communities.

Appendix A (Continued)

related program expenditures. In general, a subgrantee must have an adequate financial management system to include internal and management controls necessary to ensure grant fund expenditures were allowable and authorized.

Federal Funds Matching Requirement. States participating in WtW formula grants are entitled to receive $2 of Federal funds for every $1 of state match (the state may request that subgrantees contribute to the match). In-kind contributions can count towards satisfying a cost-sharing or matching requirement. However, 20 CFR 645.300 requires any in-kind contribution to be verifiable and traceable, whether from the grantee or subgrantee.

- Participant Reporting. State formula grant recipients must report participant data in accordance with instructions issued by the ETA. Reported data must be submitted as a component of the quarterly FPSR. Information in each quarterly report includes the number of participants served, the number terminated from the program, how many participants were placed in both subsidized and unsubsidized employment, how many participants retained a job for six months, and how many had received increased earnings from their job.

Appendix B

SCOPE, METHODOLOGY AND CRITERIA

OBJECTIVE

The Office of Inspector General, Office of Audit, conducted a performance audit of the WtW formula grant administered by SFWB. Our audit objective was to determine whether SFWB managed the federally-funded grant in accordance with WtW legislation, associated regulations and OMB Circulars describing grantee obligations and responsibilities. To accomplish this objective, we designed our audit tests to answer the following three questions.

- Did SFWB adequately manage WtW formula grant funds?

- Did SFWB satisfy the State's Federal matching requirement?

- Did SFWB comply with mandatory participant reporting requirements by submitting accurate and reliable performance reports?

SCOPE

Our audit was conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States and included such tests as we considered necessary to satisfy the audit's objective. The audit examined SFWB formula grants[15] awarded in 1998 and 1999. From the combined grants, SFWB received $19,836,352. The funds were originally provided by ETA to the State of Florida and drawn down by SFWB to operate its program. SFWB was judgmentally selected after reviewing and analyzing WtW financial and participant reporting data as of March 31, 2002, submitted by 95 local boards in ETA's Southeast Region. The average job placement cost per participant for the combined 95 local boards was $6,383. SFWB's average was more than six times higher at $39,409.

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[15] The grant awarded in 1998, referred to in this report as PY 1998, expired June 30, 2003. The grant awarded in 1999, referred to in this report as PY 1999, expires on June 30, 2004. These grants, as originally awarded, allowed 3 years to complete grant activities. The provisions in the DOL Appropriations Act of 2001 extended the life of the grants for an additional 2 years, not to exceed5 years from date of award.

Appendix B (Continued)

Audit fieldwork was performed in Miami, Florida, during the period October 2002 through March 2003. In general, our audit tests focused in the areas of cash management (drawdowns from the Florida Payment Management System and bank deposits), disbursements, subsidiary and general ledger postings, Financial Status Reports (reported expenditures and participant's status), contract management, and Federal grant matching. We reviewed transactions from September 30, 1999, through June 30, 2002, using both statistical and judgmental sampling techniques that are described in detail in the Methodology Section. Additional audit procedures were performed in the area of cash management through May 13, 2004.

METHODOLOGY

To gain an understanding of WtW formula grants we reviewed legislation, regulations, and reporting guidelines. To gain an understanding of SFWB's operations, internal controls, and administration of their WtW grant we interviewed various staff members from SFWB responsible for accounting and administrative controls, program operations, financial and performance reporting, procurement, and contract monitoring. When available, we also reviewed policy and procedure manuals, the WtW program plan, and board meeting minutes. We reviewed OMB Circular A-133 audit reports (Audits of States, Local Governments, and Non-Profit Organizations) and other state monitoring reports to identify WtW issues impacting the objective of our audit. We relied on computer-generated data when performing our audit tests, and in accordance with audit guidelines, we tested the validity and reliability of the data. Specific audit tests were performed in the areas of financial management, requirement to match the Federal grant, and participant reporting requirements as described below.

Appendix B (Continued)

Financial Management

Financial management review covered the five areas of: cash management; using interest bearing accounts for Federal monies; contracts; reporting of financial transactions; and internal controls. Our methods used to review these areas are presented below.

Cash drawn from the grantee (Florida) was reviewed to determine compliance with the 20 CFR 97 requirements that cash may only be drawn when valid expenditures exist. Specifically, 88 drawdowns totaling $19,836,352 covering the time period September 30, 1999, to June 30, 2002, were verified to the SFWB general ledger. The time period of July 1, 2001, to June 30, 2002, was the most active during the life of both grants, therefore, we selected this period to examine all 35 deposit transactions totaling $16,526,298. These transactions represented 83 percent of all cash drawn and deposited into the bank accounts, and the tests were designed to ensure all monies were deposited into WtW accounts.

Additional cash management follow-on tests were also required. First, we performed computations for lost interest since WtW drawdowns were not deposited into interest bearing accounts. Our method to determine lost interest was to identify daily excess cash balances and compute lost interest using the Federal Reserve System daily interest rate. Also, we analyzed whether the Federal Government in turn received the $8 million returned to Florida, or whether the funds were used to offset future drawdowns. Florida Payment Management System transactions were reviewed to identify cash credits totaling approximately $6.5 million (money returned to the Federal Government) that occurred in the weeks of August 23rd, August 30th, September 6th, and September 13, 2002. In addition, we analyzed Florida's cash drawdown history for 6 months before and 6 months after the $6.5 million cash was returned, in order to judgmentally estimate any offsets (the cash Florida did not require from the period August 23, 2002, to September 16, 2002). The combination of reviewing cash returned and offsets was used to determine whether the $8 million was returned. The date monies were returned and our offset analysis was incorporated in our lost interest computation.

Appendix B (Continued)

We performed procedures to determine whether $13,418,322 of cumulative expenditures reported on the June 30, 2002, Financial Status Reports[16] agreed with general ledger expenditures and whether these expenditures were allowable under WtW regulations and OMB Circular A-87.

Also, we reviewed the financial management practices of recording transactions to check registers, posting to subsidiary ledgers, and recording entries into the general ledger. In addition, allocated program contract costs from the period July 1, 2001, to June 30, 2002, totaling $2,186,404 was examined to determine whether these costs were identifiable to WtW participants and the contracts met Federal bid and competition requirements. For the $2,186,404 in contract billings, we selected all 25 subcontractors to determine whether WtW services were provided, the number of participants served, and how these services were tracked.

We evaluated internal controls of SFWB's financial management system. We reviewed SFWB procedures for preparing financial statements from general ledger entries, its retention practices for prior period financial status reports and supporting documentation. In addition, bank deposit practices were examined to verify actual deposits agreed with general ledger entries. Also, 379 disbursements totaling $19,121,576 in cash advances paid to subcontractors covering the period of January 1, 2002, through March 31, 2002 were traced to test the validity of WtW disbursements[17] and whether transactions were properly recorded into subsidiary ledgers.

Requirement to Match the Federal Grant

We identified and analyzed the four in-kind contributions submitted by SFWB to help satisfy the requirement to match the Federal grant. Specifically, we determined whether SFWB's estimations for bus pass discounts ($90,000), reduced community college tuition ($497,767), supervisory salaries and benefits

[16] Cumulative expenditures of $11,135,506 and $2,282,816 were reported on Financial Status Reports for grant program years 1998 and 1999, respectively.
[17] The disbursements traced were not distinguishable by grant type such as WtW, WIA, or Welfare Transition (WT). Consequently, all transactions were traced to the applicable subsidiary ledger, and only WtW transactions were further examined.

Appendix B (Continued)

incurred by nonprofit and government entities ($1,249,950), and the cost to produce payroll checks ($19,500) were verifiable in accordance with 29 CFR 97 and 20 CFR 645. In addition, we assessed the propriety of each in-kind estimate to ensure they were realistic, in agreement with service provider contracts, and allowable by the CFR.

Participant Reporting Requirements

We statistically sampled 89 participants' official case files[18] from a universe of 1,410 participants to determine whether the June 30, 2002, FPSR was accurate and reliable. To test the accuracy of the June report, we reviewed participant case files and authenticated each of the 89 participant's reported status. In addition to reported status accuracy, we also determined if individuals met eligibility requirements and had received an in-depth assessment. Eligibility[19], in-depth assessments, and FSR reporting requirements are defined in 20 CFR 645.

FSR line items were evaluated for compliance with "Instructions for Reporting WtW Formula Grants Financial and Participant Data" issued by ETA for the following line items:

- Item 24 - Participants Served
- Item 25 - Participants Terminated
- Item 26 - Placed in Unsubsidized Employment
- Item 27 - Employed in Unsubsidized Employment When Entering WtW
- Item 28 - Placed in Subsidized Employment
- Item 29 - Retained 6 Months (two quarters) in Unsubsidized Employment

[18] Our sample size of 82 participant case files was a random sample with a 95 percent confidence level. A total of seven participant files were unavailable for review. Seven additional files were randomly selected to replace those unavailable for review, resulting in 89 files with projected results.

[19] Effective July 1, 2000, the eligibility criteria were significantly amended through the passage of the Consolidated Appropriations Act for FY 2000 that contains the WtW and Child Support Amendments of 1999. The effective eligibility criteria were determined based on the date of eligibility determination indicated in the case files.

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Appendix C

ACRONYMS AND ABBREVIATIONS

Appendix C

ACRONYMS AND ABBREVIATIONS

AWI	-	Agency for Workforce Innovations
CFR		Code of Federal Regulations
DOL		Department of Labor
ETA		Employment and Training Administration
FPSR		Federal Participant Summary Reports
FSRs		Financial Status Reports
OMB		Office of Management and Budget
MDCC		Miami Dade Community College
MDCPS		Miami Dade Community County Public Schools
PY		Program Year
SFWB		South Florida Workforce Board
TANF		Temporary Assistance for Needy Families
WAGES		Work and Gain Economic Self-Sufficiency
WIA		Workforce Investment Act
WtW		Welfare-to-Work
WWW		Welfare-to-Work Welfare Transition WIA Contracts

RESPONSE TO DRAFT REPORT

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Appendix D

south florida Workforce member: Employ Florida

September 27, 2004

Mr. Michael K. Yarbrough
Regional Inspector General for Audit
U.S. Department of Labor – OIG
61 Forsyth Street, S.W., Room 6T20
Atlanta, Georgia 30303-3104

Report Number: 04-04-002-03-386

Dear Mr. Yarbrough:

The enclosed is the response addressing the draft report findings and recommendations to the audit of the performance of the South Florida Workforce Board Welfare to Work Grants for PY 1998 and PY 1999.

The electronic copy was forwarded on the due date Monday, September 27, 2004. The one week extension to submit this report was of great help to us and we would like to thank you for that.

If you have any questions concerning this response, please contact me at 305-594-7615 ex. 369 or Johnny Guimaraes ex. 394.

Sincerely,

Edith Humes-Newbold af

Edith Humes-Newbold
Interim Director
South Florida Workforce

c: James Mathews, Inspector General, Agency for Workforce Innovation
Jim Doyal, Process Manager, Agency for Workforce Innovation

/enclosure

7300 Corporate Center Drive, Suite 500, Miami, FL 33126-1234 Telephone: (305) 594-7615
www.SouthFloridaWorkforce.com

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Appendix D

Response To
Performance Audit of
South Florida Workforce Board
Welfare-to-Work Formula
Grants PY 1998 and PY 1999
September 30, 1999 to June 30, 2002

Edith Humes-Newbold, Interim Executive Director
South Florida Workforce

September 27, 2004

Appendix D

Finding I

Inadequate Financial Management System Resulted in Mismanagement of WtW Formula Grant Funds

As of June 30, 2002, SFWB officials had drawn approximately $19.8 million from the grant, but only had approximately $7.9 million in expenditures recorded in their general ledger. The $11.9 million difference represented excess cash. In August 2002, SFWB returned $7.7 million to the state of Florida, however, approximately $4.2 million was not accounted for, and as a result we question these costs. Additionally, as a result of the excess cash drawn, the US Treasury lost $162,059 in interest earnings relating to the excess cash not deposited into an interest bearing account. SFWB provided documentation to support that they returned $4,226,850 to AWI out of WtW grant funds after our fieldwork concluded.

Also, we question contract costs totaling $2,186,404 resulting from costs that could not be supported as serving WtW participants and SFWB's contracting process not meeting Federal competition requirements. Finally, we identified internal control weaknesses related to the untimely preparation of financial statements, unlocated financial reports, grant monies deposited into the wrong bank account, and inaccurate subsidiary ledger entries. These weaknesses in internal controls contributed to a significant error in financial reporting. The June 30, 2002, expenditure report used to track program costs, contained a $5.5 million error that resulted from reported expenditures of approximately $13.5 million compared to general ledger entries of $8 million.

SFWB Response:

During the August 26, 2004 meeting with USDOL representatives, SFW produced copies of check numbers 015303 dated May 5, 2001 and 012034 dated October 30, 2003 documenting the return of the questioned $4.2 million.

Although we agree that interest was not earned on WtW funds prior to December 2002, we believe that there was no net effect to the Federal Treasury. As the audit report points out, due to discrepancies in the way

Appendix D (Continued)

indirect costs were allocated to WtW, more WtW cash was drawn than should have been.

However, this meant that other Federal grant programs were under drawn, thereby allowing this cash to remain in the Treasury to earn interest, which should have offset what was lost on WtW funds. We suggest that the OIG consider this compensating factor and eliminate the issue of interest repayment. WtW participants and Welfare Transition ("WT") participants were dually enrolled as allowed by Federal Regulations (20CFR § 645.220). The services allowable under the WT program were also allowable under WtW. Since participants were dually enrolled, the One-Stop system, which had gone through a competitive process for the WT and WIA programs, had the WtW program integrated in the service array for full integration of all programs. In compliance with applicable regulations, WT dollars were utilized first to provide services to the dually enrolled participants. The total amount spent on services for the dually enrolled population exceeded the annual WT allocation SFWB was able to draw upon. As previously stated in our August 13, 2003 response, our records reflect that, except for the Florida Keys, all one-stop locations had active WtW participants. Neither MDCC nor MDCPS were one-stop operators. They functioned as resource centers assisting participants who were in the caseloads of the one-stops and who were receiving training on their campuses. We urge the OIG to reconsider the use of these issues as basis for questioning all WtW costs for the 2001-2002 fiscal year. We do not believe that the weaknesses cited by the OIG rise to the level that justifies such a conclusion.

Prior to the implementation of the Micro Information Products (MIP) accounting system on July 1, 2002, SFWB did not have an effective automated accounting system. The internal control weaknesses that are cited have been addressed. The incorrect financial reporting was addressed during SFWB's annual audit and the accounting records were corrected.

Finding II

Unauthorized and Unsupported In-kind Contributions Resulted in Noncompliance with Florida's Federal Matching Requirement

SFWB's in-kind contribution of $1,857,217, used to help satisfy the state's Federal matching requirement, was not verifiable. Specifically, $855,091 does not meet the requirements for in-kind contribution. The remaining $1,002,126 does not meet the Code of Federal Regulation's verifiable and traceable requirement

Appendix D (Continued)

because supporting documents were not retained to substantiate that the match occurred. After our fieldwork ended, the State of Florida has provided
documentation that it was able to meet its match requirements without the use of SFWB's contribution.

SFWB Response:

SFWB maintains that it did meet its match requirement through discounted bus passes to eligible WtW participants, reduced tuition at the local community college, supervisory staff time costs to supervise WtW participants who were employed, and the costs associated with processing WtW participant payrolls. SFWB acknowledges that there were record keeping issues that may impact the allowability of these items as match subsequent to their being reported.

As stated in the finding, the Agency for Workforce Innovation documented that the state had ample match expenses to offset any SFWB match shortfall due to poor record keeping.

Finding III

Participant Performance Data Reported to Florida and to ETA Were Unreliable and Inaccurate

SFWB did not comply with mandatory participant reporting requirements. Performance reports submitted to Florida and the United States Department of Labor's, (DOL) Employment and Training Administration, (ETA) were inaccurate and unreliable. Using statistical estimation techniques, we project 1,173 of the program's 1,410 participants were either misreported on the June 30, 2002, report or their status could not be confirmed because the official participant files were missing. One example of misreporting occurred when participants were reported as served by virtue of being enrolled in the program even though they did not receive any WtW services.

Appendix D (Continued)

SFWB Response:

SFWB acknowledges that seven of 82 participant files that were requested from contracted service providers could not be produced. The majority of the missing files were from one service provider, the City of Miami, who received multiple requests from SFWB to produce the files. At the time of the request, the City of Miami was no longer a service provider for SFWB and may not have given the requests sufficient priority. SFWB does not agree that the number of files the City of Miami failed to produce should be extrapolated to the universe because these results are an exception from our normal experience with our service providers.

The 34 participants identified as not having received WtW services were in fact dually enrolled and provided services.

The 21 individuals with no services for over 90 days were purposely not terminated due to our understanding that they could receive support services, placement assistance, etc as they had not achieved economic sufficiency. It was not our interpretation of ETA's <u>suggested</u> guidelines that these participants had to be terminated after 90 days since they were eligible for continued services.

SFWB acknowledges that clerical errors were made in reporting participant data.