

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



MAR 26 2004

MEMORANDUM FOR: EMILY STOVER DeROCCO
Assistant Secretary for
Employment and Training

FROM: *Elliot P. Lewis*
ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Chicago State University Welfare-to-Work
Competitive Grant Program
Audit Report No. 05-04-007-03-386

The attached subject final report is submitted for your resolution action. The report includes three open recommendations. We are providing a courtesy copy directly to the grantee.

If you have any questions concerning this report, please contact Charles M. Allberry, Regional Inspector General for Audit, in Chicago at 312-353-2416.

Attachment

cc: Phyllis Newby, ETA/OIG Audit Liaison

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

Performance Audit of
CHICAGO STATE UNIVERSITY
Welfare-to-Work Competitive Grant
For the Period
October 1, 1999 through March 31, 2002

Audit Report Number: 05-04-007-03-386

Date Issued: March 26, 2004

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Acronyms

AFDC	Aid to Families with Dependent Children
CFR	Code of Federal Regulations
CSU	Chicago State University
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
IDHHS	Illinois Department of Health and Human Services
OMB	Office of Management and Budget
OIG	Office of Inspector General
QFSR	Quarterly Financial Status Report
TANF	Temporary Assistance for Needy Family
WtW	Welfare-to-Work

Executive Summary

The Office of Inspector General (OIG) conducted a performance audit of the \$4,792,500 Welfare-to-Work (WtW) Competitive Grant awarded to Chicago State University (CSU). Our audit objective was to determine whether CSU was in compliance with the applicable laws and regulations as it pertained to grant costs and eligibility of grant participants.

The CSU reported expenditures of \$3,493,152 in support of 249 WtW participants for the period October 1, 1999 through March 31, 2002. We tested a judgmental sample of staff salaries and fringe benefits, as well as administrative, program, and service provider costs totaling \$918,779. We also tested participants= program eligibility and reviewed the grantee=s compliance with the grant requirements and principal criteria. However, our selective testing was not designed to express an opinion on CSU=s Quarterly Financial Status Report (QFSR).

We found:

- Administrative costs were reported as program costs resulting in \$909,656 of excessive administrative costs, and
- Expenditures were not reported properly for participants served under the *General Eligibility* and *Other Eligibility* criteria.

We recommend that the Assistant Secretary for Employment and Training:

- Recover questioned costs of \$909,656.
- Inform CSU that they have billed the maximum allowable administrative costs under the grant.
- Direct CSU in the future to report the actual breakdown of *general eligibility* expenditures and *other eligibility* expenditures based on actual costs.

CSU officials agreed with our recommendations. CSU's response to our draft report is included in its entirety as an appendix to this report.

Background

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

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

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

Of the \$3 billion budgeted for the WtW program in Fiscal Years 1998 and 1999, \$711.5 million was designated for award through competitive grants to local communities.

Chicago State University Competitive Grant On September 30, 1999, Chicago State University (CSU) received a 30-month WtW competitive grant in the amount of \$4,792,500. The period of performance was October 1, 1999 through March 29, 2002. There were two grant modifications. The first modification realigned the budget; amended Special Clause Number 2; incorporated the current negotiated indirect cost agreement effective December 1, 1998; and increased the consultant fees from \$400 per day to \$450 per day.

The second modification effective February 21, 2002, realigned the budget and extended the grant period through March 31, 2003. No additional funding was included in the grant modifications.

The purpose of the grant was to focus specifically on the barriers to economic self-sufficiency of welfare recipients who were victims of domestic violence and individuals who have traditionally been the hardest to employ by providing them with job readiness, job retention skills and services, as well as educational and vocational training. Job readiness and job retention services include the following: orientation to the CSU Works Program, a CSU Works job placement position on the Chicago State University campus, referral to

appropriate support services, mentoring, tutoring, life skills, and outreach services. The grant goal was to serve 175 participants, and place 100 of them into unsubsidized employment.

Principal Criteria

In addition to the provisions of the Balanced Budget Act of 1997, the U.S. Department of Labor (DOL) issued regulations found in 20 Code of Federal Regulation (CFR) 645. Interim regulations were issued November 18, 1997. Final regulations were issued on January 11, 2001 and became effective April 13, 2001. Also on April 13, 2001, a new Interim Final Rule became effective, implementing the Welfare-to-Work and Child Support Amendments of 1999. This resulted in changes in the participant eligibility requirements for competitive grants, effective January 1, 2000.

As an institution of higher education, CSU is required to follow general administrative requirements contained in Office of Management and Budget (OMB) Circular A-110, which is codified in DOL regulations at 29 CFR 95, and OMB Circular A-21 requirements for determining the allowability of costs.

Postaward Survey

On February 16, 2000, we issued a report on the results of a postaward survey of third-round competitive grantees. CSU was included in that review. During this audit, we followed up on our concerns identified in the postaward survey. Based on our audit work, some concerns were not adequately addressed by CSU and are noted in the findings section of this report.

Objective, Scope, and Methodology

Objective

Our audit objective was to determine whether CSU was in compliance with the WtW grant agreement, applicable laws and regulations as they pertained to grant costs and eligibility of grant participants.

Audit Scope and Methodology

Our audit included financial and program activities that occurred from October 1, 1999 through March 31, 2002. Our review of management controls was limited to financial management and eligibility management at the grantee level. We did not audit performance measurements at CSU.

As part of our audit planning, we conducted a vulnerability assessment of the financial management, participant eligibility, and cost allocation processes to determine if we could limit the audit procedures in any of these areas. As a result of the vulnerability assessment, we determined further work was warranted. Judgmental sampling was chosen as our sampling methodology to test costs and participant eligibility. Accordingly, we did not project the results of our sample to the entire universe of financial transactions or participants. In addition, our selective testing was not designed to express an opinion on CSU's QFSR.

Of the \$3,493,152 claimed costs reported on the QFSR as of March 31, 2002, we selected 111 transactions, totaling \$918,779, to test for allowability of personnel costs (\$118,414) and non-personnel costs (\$800,365, which included indirect costs of \$310,618). These transactions included staff salaries and fringe benefits, administrative expenditures, program costs, and service provider costs. Our testing was based on the vulnerability assessment. We selected transactions from various accounts based on a judgment of low to medium vulnerability, and indirect cost items based on high vulnerability. Selection was judgmentally based on the various accounts and obtaining a high mix of low and high dollar transactions from October 1, 1999 through March 31, 2002.

CSU reported 249 participants served on its QFSR dated March 31, 2002. We reviewed a list of WtW participants provided by CSU and determined the universe of eligible WtW participants served was 249, which agreed to the QFSR. There was a change in participant eligibility requirements, effective January 1, 2000. Since all participants were enrolled after January 1, 2000, we created one universe for sample selection. To assess participants' eligibility, we used judgmental sampling techniques to select a sample of 30 participants enrolled from January 1, 2000 through March 31, 2002. We reviewed their files to determine if they met eligibility requirements. This included reviewing welfare information provided to CSU by Illinois Department of Human Services offices at Auburn Park,

Calumet Park, and Roseland, Illinois, to determine whether certain participants met TANF and/or Aid to Families with Dependent Children (AFDC) cash assistance requirements as of each participant's WtW eligibility determination date. During our audit, we reviewed compliance with the grant requirements and principal criteria cited on page 2.

To accomplish the audit objectives, we interviewed CSU officials. We also obtained and reviewed grantee policies and procedures, participant files, accounting records, and source documentation, such as contracts, service provider agreements, invoices, purchase orders, purchase requisitions, direct payment vouchers, cancelled checks, payrolls, and records of fringe benefits to support claimed costs.

We conducted our audit in accordance with *Government Auditing Standards* for performance audits, issued by the Comptroller General of the United States.

Findings and Recommendations

1. Administrative Costs Were Reported as Program Costs

We found that CSU routinely charged indirect costs as program costs.

Administrative costs exceeded 15% of the grant award resulting in \$909,656 of questioned costs.

The U.S. Department of Health and Human Services (HHS) has approved a predetermined indirect cost rate of 49 percent for the period July 1, 1999 through June 30, 2004 for CSU to allocate the costs of building use allowance/capital improvements, equipment use allowance, operating and maintenance, library, general administration, departmental administration and sponsored program administration. We are of the opinion that the types of costs included in the indirect cost pool meet the “costs of administration” definition set forth in Section 645.235 (b) of CFR 20, which states:

The costs of administration are that allocable portion of necessary and allowable costs associated with the overall management and administration of the WtW program and which are not directly related to the provisions of services to participants. These costs can be both personnel and non-personnel and both direct and indirect.

CSU charged indirect costs to the grant based on the predetermined indirect cost rate. The total indirect costs charged as program costs were \$1,144,279. As a result of this practice, CSU has exceeded the 15 percent limitation of administrative costs of \$718,875 (15% of \$4,792,500). Therefore, we have questioned the amount claimed in excess of the maximum allowable amount as follows:

Expenditures at March 31, 2002	
Administrative Costs	\$484,252
Indirect Costs	\$1,144,279
Total Administrative Costs	\$1,628,531
Maximum Allowable Amount	\$718,875
Questioned Costs	\$909,656

During audit fieldwork, CSU officials indicated to us that indirect costs for this grant were not administrative costs. This was a misinterpretation of the regulations.

Section 645.235 (a)(2) of CFR 20 states: “. . . The limitation on expenditures for administrative purposes under WtW competitive grants will be specified in the grant agreement but in no case shall the limitation be more than fifteen percent (15%) of the grant award.”

We informed CSU in a management letter resulting from the postaward survey that it had not identified all budgeted costs that would meet the WtW definition for administrative costs or established control within their account system to ensure actual WtW administrative expenditure would not exceed the 15 percent maximum limitation.

CSU's Response:

CSU agreed to OIG's assertion that administrative costs were reported as program costs. CSU stated that it will provide allowable stand in costs to offset the questioned costs. CSU provided a list of possible stand in costs.

OIG's Conclusion:

CSU must provide the proposed stand in program costs to the ETA Grant Officer for review/approval.

Recommendations:

We recommend that the Assistant Secretary for Employment and Training:

- recover the questioned costs of \$909,656; and
- inform CSU that they have billed the maximum allowable administrative costs under the grant.

2. Expenditures Were Not Reported Properly for Participants Served Under the General Eligibility Criteria (70 Percent Category) and the Other Eligibility Criteria (30 Percent Category)

CSU is not reporting the actual costs and ratio of the 70% and the 30% categories

The *general eligibility* (70 percent category) and *other eligibility* (30 percent category) expenditures were not properly reported on the March 31, 2002 QFSR.

CSU did not report the actual breakdown of *general eligibility* and *other eligibility* expenditures based on CSU's allocation worksheet. Instead, the totals on the allocation worksheet were apparently adjusted to ensure that not more than 30 percent of expenditures were spent on *other eligibility* category. These were the totals reported on the QFSR. The reported amounts and the amounts supported by the allocation worksheet are as follows:

	March 31, 2002 QFSR		Allocation Worksheet	
	Amount	Percentage	Amount	Percentage
<i>General Eligibility</i>	\$2,445,206	70	\$2,348,518	67
<i>Other Eligibility</i>	\$1,047,946	30	\$1,144,634	33
Totals	\$3,493,152	100	\$3,493,152	100

Section 645.211 of CFR 20 states:

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

In order for ETA to know if the grantee is meeting this requirement, expenditures should be reported accurately.

We informed CSU in a management letter resulting from the postaward survey that written policies and procedures must be in place to ensure that program expenditures are spent in accordance with Federal requirements, which include the 70/30 percent cost limitations.

CSU's Response:

CSU agreed with OIG's assertion and stated that it will reconcile the actual costs incurred applicable to participants in the *general eligibility* and *other eligibility* categories and will revise the QFSR accordingly.

OIG's Conclusion:

The ETA Grant Officer needs to verify that CSU has fully implemented the required corrective actions.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training direct CSU to report the actual breakdown of *general eligibility* expenditures and *other eligibility* expenditures based on actual costs.

Grantee's Response to Draft Report

CHICAGO STATE UNIVERSITY

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March 1, 2004

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RE: U.S. Department of Labor, Audit Report Number 05-03-006-03-386

Dear Mr. Allberry:

We have reviewed the findings and recommendations contained in the subject Audit. The following are our responses to the items cited. The responses are in the same order as the findings and recommendation presented:

1. **Administrative Costs Were Reported as Program Costs**

The university agrees that administrative costs were reported as Program Cost as previously, been discussed were with the Department of Labor officials. Chicago State will provide allowable stand in cost as an offset to the questionable cost. This stand-in cost will include:

- a) Unused allowable matching funds that were booked in the university accounting system.
- b) Allowable items that were part of the university's negotiated indirect cost rate that can be specifically identified to the grant activity, and were part of the rate that was in excess of the 15% administrative cost limitation.
- c) Allowable cost incurred in behalf of the grant during the three and half year period of operation, but not charged.
- d) Operation and maintenance of plant expenses, building and equipment use allowances and applicable building interest expense.

Scholarship & Responsibility

2. Expenditures Were Not Reported Properly for Participants Served Under the General Eligibility Criteria (70 Percent Category) and the Other Eligibility Criteria (30 Percent Category)

Based on the auditor's recommendation, CSU will reconcile actual cost incurred applicable to participants in the General and Other Eligibility Category and revise the Financial Status Report (FSR) accordingly.

During the audit resolution process, CSU will provide supporting documentation for amounts proposed as stand in cost and work papers identifying any allocation methodologies used in arriving at an amount proposed as stand in cost.

Should you have any questions please do not hesitate to contact me at 773-995-3598.

Sincerely,



Ken Koroma
Associate Vice President
Sponsored Programs and Research Services

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