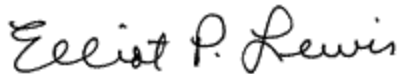


**MEMORANDUM FOR:** EMILY STOVER DeROCCO  
Assistant Secretary for  
Employment and Training



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

**SUBJECT:** Missouri Service Delivery Area 7  
Report No. 05-05-001-03-390

Two anonymous e-mail complaints alleged the Private Industry Council Service Delivery Area 7 in the Southwest Region of Missouri (PIC), a Missouri Division of Workforce Development (MDWD) subgrantee, misused and mismanaged Workforce Investment Act (WIA) funds. The complaints cited seven allegations. We found that three of the allegations were substantiated and four were unsubstantiated. Because the grantee and/or the PIC have taken corrective action and the PIC is no longer in business, we make no recommendations on two of the substantiated allegations. For one substantiated allegation, this report includes recommendations.

Four allegations related to a PIC employee theft of WIA funds. Specifically, the complaints alleged PIC management:

- failed to notify the Workforce Investment Board (WIB), MDWD, and the U.S. Department of Labor (DOL) of the theft (substantiated, with recommendations);
- provided a falsified audit to maintain compliance during the period of the employee misuse of funds (unsubstantiated);
- replaced the stolen WIA funds with nonexistent fee-for-service funds (unsubstantiated); and
- verbally threatened employees of the PIC to not report actions of the PIC to the WIB, MDWD, or DOL (substantiated).

The complaints also alleged the PIC:

- shifted funds without government permission (substantiated);
- misallocated funding between WIA Title I categories (unsubstantiated); and
- failed to meet performance standards, while spending \$3 on overhead (salaries) for \$1 of program expenses (no one placed in a training activity for approximately 1 year) (unsubstantiated).

## **Background**

WIA was designed to reform the Federal job training system and provide investment activities that increase the occupational skills, employment, retention, and earnings of participants, thereby improving the quality of the workforce and reducing welfare dependency. Missouri established 14 Local Workforce Investment Areas to operate the WIA program and deliver services. A Local WIB in each local area sets WIA policy for the local area.

The PIC was the One-Stop Operator and administered the WIA and Welfare-to-Work programs in the seven counties of the Missouri Southwest Region. The PIC received grant revenue averaging \$1.6 million for fiscal years ended June 30, 2002, and June 30, 2003. The PIC discontinued operations on March 15, 2004. On March 16, 2004, the Southwest Region WIB, the Joplin Area Chamber of Commerce, and MDWD entered into a Memorandum of Understanding (MOU) for continuing operations. The MOU designated the Chamber as the program operator and the WIB as the authorized fiscal agent through June 30, 2004.

## **Objective, Scope, and Methodology**

We conducted a performance audit of the PIC to determine the merits of the allegations.

The audit covered the PIC operations relating, but not limited, to issues addressed in the complaint, covering the period July 1, 2001, through March 15, 2004.

We reviewed PIC financial and program records; the PIC's Single Audit reports; MDWD's WIA Section 184(a)(4) reviews of selected PIC financial, and related administration systems; police records; and MDWD's records of the PIC's WIA participants' training data. We interviewed former PIC employees, and telephonically contacted a number of judgmentally selected Joplin WIA participants to confirm they were enrolled in the WIA program and received training, if reported as receiving training.

To test the coding of WIA purchases made on behalf of participants, we randomly selected a judgmental sample of 99 WIA participants from a universe of 1,478 participants who were in the WIA program from July 1, 2001, through March 15, 2004. Although the results of our sample cannot be statistically projected to the universe, our tests identified no improper cost allocations. This conclusion is consistent with findings contained in independent monitoring reviews conducted by MDWD. Therefore, we deemed a larger statistical sample to be unnecessary.

The objective of this audit was to determine the merits of specific allegations. Our testing of management controls and compliance with all laws and regulations focused only on our audit objective and was not intended to form an opinion on the adequacy of overall management controls or compliance with laws and regulations as a whole. Therefore, we do not render such an opinion.

We performed fieldwork at the Missouri Career Center at 730 South Wall Street, Joplin, Missouri, during May 2004. Our audit was performed in accordance with *Government Auditing Standards*.

## **Results**

### **The PIC did not Immediately Notify DOL of the Employee Theft (Substantiated, with Recommendations)**

The complaint states the PIC failed to notify the WIB, MDWD, and DOL of a theft of WIA funds. This allegation is substantiated. In addition, while MDWD notified DOL Employment and Training Administration (ETA) staff of the theft, both MDWD and ETA failed to notify the OIG immediately, as required, when they learned of the theft.

In our conversations with former PIC employees and our review of accounting records and police reports, we learned that between October 1, 2001, and January 21, 2003, a PIC WIA Youth Program mentoring employee used gift cards, purchased with the PIC's Wal-Mart credit card, and the Wal-Mart credit card to purchase items totaling \$4,737 for personal use. The employee manipulated the paperwork and forged participants' signatures to substantiate false support service claims.

In the 4<sup>th</sup> quarter of calendar 2002, PIC staff noticed the employee was having difficulties obtaining back-up documentation to substantiate Wal-Mart credit card/gift card purchases. In December 2002, PIC staff questioned the employee about some receipts that did not appear to be valid. In January 2003, PIC staff questioned the employee about items of a personal nature (cigarettes, etc.) on a Wal-Mart credit card document.

The employee resigned on January 24, 2003. On February 7, 2003, PIC management filed a police report, and the PIC Board of Directors recommended that the PIC prosecute the offender and seek restitution. In January and February 2003, PIC staff established the amount of WIA funds misappropriated using the Wal-Mart credit card. The employee pled guilty in court in August 2003 and the PIC received restitution totaling \$4,737 in November 2003. Per the MDWD Auditor's Report, dated January 21, 2004, ". . . PIC has instituted control measures to make this type of deception more difficult to perpetrate in the future."

Section 667.30 of CFR 20 requires that the theft be immediately reported to DOL:

**How are complaints and reports of criminal fraud and abuse addressed under WIA?** Information and complaints involving criminal fraud, waste, abuse, or other criminal activity must be reported immediately through the Department's Incident Reporting System to the DOL Office of Inspector General, Office of Investigations, Room S5514, 200 Constitution Avenue NW, Washington, D.C. 20210, or to the corresponding Regional Inspector General for Investigations, with a copy simultaneously provided to the Employment and Training Administration.

Further, Department of Labor Manual Series (DLMS) 8, Chapter 700, Paragraph 712 A. requires that all DOL employees are responsible for:

- (1) Promptly reporting, in writing when possible, to their supervisor or the OIG, information that they reasonably believe indicates wrongdoing or misconduct.

. . . DOL employees should also forward allegations of wrongdoing or misconduct, which are received from DOL contractors, grantees, or other individuals, to their supervisor or to the OIG. DOL employees may also advise the contractor, grantee, or other individual to contact the OIG Complaint Analysis Office directly.

MDWD staff stated they did not learn of the theft until they received an anonymous complaint dated September 29, 2003. The PIC staff told MDWD that they notified the County Commissioner, by e-mail, in February 2003. They thought that by notifying the County Commissioner, they were notifying the WIB because the County Commissioner is the chief elected official of the local WIA area, and appoints the WIB members.

MDWD informed ETA of the theft in October 2003. ETA did not advise MDWD to follow up with an incident report to the DOL Office of Inspector General (OIG), nor did ETA inform the OIG. The OIG did not learn of the theft until it received this hotline complaint (approximately one year after the PIC discovered the theft).

The allegation is substantiated. MDWD has since implemented a written policy instructing the subgrantees to report waste, fraud, and abuse to the DOL's Incident Reporting System, MDWD, and the WIB. However, MDWD did not follow the regulation requiring it to report the incident directly to the OIG. In addition, when DOL ETA staff learned of the incident from MDWD, ETA did not report it to the OIG. Refer to the **Recommendations Section** later in this report.

#### The PIC Provided a Falsified Audit to Maintain Compliance During the Period of the Employee Misuse of Funds (Unsubstantiated)

The complaint states the PIC provided a falsified audit to maintain compliance during the period of the employee misuse of funds. We found that this allegation is unsubstantiated.

One complaint alleged a "possible falsification audit to maintain compliance during the periods 12-2001 to 12-2002 which is during the period of employee misuse. . . ." The other complaint stated "The audits conducted by the PIC during this time frame, to maintain compliance with Federal Regulations, do not indicate that the auditor was informed of the employee theft, even though the management of the PIC states that they informed the auditor."

We reviewed the Single Audit reports of the PIC for the periods ended June 30, 2002, and June 30, 2003. The June 30, 2002 report is silent on the employee theft because it had not been discovered at that time. The June 30, 2003 report includes a finding on the employee theft. We found no evidence of falsification. The Single Audits were obtained by the PIC to comply with the OMB Circular A-133. Therefore, the allegation is unsubstantiated.

#### The PIC Replaced the Stolen WIA Funds with Nonexistent Fee-for-Service Funds (Unsubstantiated)

The complaint implies the PIC used grant money to replace the stolen funds. We found the PIC used fee-for-service funds to replace the stolen funds, rather than grant funds. The allegation is unsubstantiated.

The complaint alleged PIC management “stated that the funds that were mis-spent (theft) by an employee were replaced with ‘fee-for-service’ funds. The PIC has at no time done fee-for-service work, and only receives funding from Title I, Welfare-to-Work, and Temporary Assistance for Needy Families (TANF).”

PIC management stated in an interview with MDWD, in January 2004, that they replaced the stolen funds “using monies in a Fee-for-Service Account . . . earned four to five years previous from job description writing for Dyno Nobel.” The PIC retained this money in a separate account and the Single Audits for the fiscal years ended June 30 2002, and June 30, 2003, reported that the PIC had unrestricted assets of \$16,622, representing this fee-for-service money. Therefore, the PIC’s accounting records show the PIC used unrestricted cash to reimburse the WIA Program for the theft, and replenished the unrestricted cash account when the employee made restitution. Therefore, the allegation is unsubstantiated.

#### The PIC Verbally Threatened Employees (Substantiated)

The complaint alleged PIC management verbally threatened employees to not report actions of the PIC to the WIB, MDWD, or DOL. We found that this allegation is substantiated. However, the PIC is no longer in business, and we make no recommendation.

The complaint alleged PIC management, “on numerous occasions, verbally threatened employees to not report actions of the PIC to the WIB, MDWD, or DOL. The ramification of the reporting would be the lose [sic] of the employee’s job. This was also the case in the non-reporting of the employee theft.”

Four former PIC employees we interviewed stated management advised them not to discuss or report the employee theft and/or the PIC actions with the WIB, MDWD, or DOL. One of the employees reported to our auditor that management told the employee and one other that if he could prove who provided information to MDWD, they would be terminated “on the spot.”

PIC management stated in an interview with MDWD, in January 2004, that the PIC notified its attorney of the theft in February 2003, and the attorney told it not to discuss the case with anyone.

The allegation is substantiated. However, the PIC is no longer in business. Therefore, we make no recommendation.

#### The PIC Shifted Funds Without Government Permission (Substantiated)

The complaint alleged the PIC shifted funds without government permission. This allegation is substantiated. However, as the PIC has since reversed the shift, or transfer, we are satisfied with the corrective action taken and make no further recommendation.

Section 667.140 of CFR 20 states:

- (a) A Local Board may transfer up to 20 percent of a program year allocation for adult employment and training activities, and up to 20 percent of a program year

allocation for dislocated worker employment and training activities between the two programs. (b) Before making any such transfer, a Local Board must obtain the Governor's approval.

The complaint stated: "The PIC has also acted on several occasions in direct violation of Federal regulations by shifting funds without government permission. . . ."

The PIC's financial records for December 2002 show a \$94,000 transfer between the WIA Adult program and WIA Dislocated Worker program to reverse a previous transfer made prior to receiving the Governor's approval or disapproval.

By prematurely transferring the funds, the PIC overruled the Governor's decision concerning initial allocation formulas for the distribution of funds for adult employment and training activities to local areas. The PIC reversed the transfer when the Governor did not approve the transfer. The allegation is substantiated. We are satisfied with the corrective action taken to reverse the transfer. The PIC is no longer in business and we make no recommendation.

#### The PIC Misallocated Funding Between WIA Title I Categories (Unsubstantiated)

The complaint alleged that the PIC misallocated funding between Title I categories. We found all expenditures made on behalf of WIA participants and WIA staff salary expenses were charged to the appropriate WIA Title I categories. This allegation is unsubstantiated.

We performed a judgmental sample to test the coding of WIA expenditures made on behalf of participants. We randomly selected 99 WIA participants from a universe of 1,478 participants who were in the WIA program from July 1, 2001, through March 15, 2004. We found that the expenditures were charged to the appropriate WIA Title I categories. In addition, MDWD financial monitoring reviews, performed either once or twice per year, reported that the PIC properly coded disbursements to the appropriate cost category and program.

We also selected a judgmental sample of between three and six WIA employees for each biweekly pay period between July 1, 2001, and March 15, 2004. We traced employee hours worked by program activity, reported by the employees on signed biweekly timesheets, to the general ledger. The hours per program/activity reported by PIC WIA employees on their signed timesheets agreed with the hours allocated to the appropriate WIA Title I categories. This allegation is unsubstantiated.

#### The PIC Failed to Meet Performance Standards, While Spending \$3 on Overhead for \$1 of Program Expenses – No One Placed in a Training Activity for Approximately 1 Year (Unsubstantiated)

The complaint alleged the PIC did not meet performance standards, spent more on administrative expenses than allowed, and placed no participants in training for approximately 1 year. While the PIC failed to meet performance standards, this is not a violation of the WIA regulations. We also found that administrative expenses claimed by the PIC were within the WIA grant's 10 percent limitation. Finally, we confirmed that participants were enrolled in training throughout the audit period. This allegation is unsubstantiated.

The complaint stated:

The PIC has also acted on several occasions in direct violation of Federal regulations by . . . failing to meet performance standards, while spending \$3 on overhead (salaries) for \$1 of program expenses (no one placed in a training activity for approximately 1 year).

The PIC stated it did not meet the performance standards relating to participant earnings received after 6 months in unsubsidized employment. DOL ETA stated the PIC also did not meet the credential rate performance standards. MDWD stated the PIC did not meet WIA performance standards for the first 3 years of the WIA program and then the PIC went out of business. Failure to meet performance standards is not a violation of Federal regulations.

The allegation, by stating that the PIC spent “\$3 on overhead (administrative costs) for \$1 of program expenses implied”, the PIC exceeded the WIA 10 percent administrative cost limitation. WIA grants have a 10 percent limitation on administrative costs. We found that PIC data reported to MDWD for Program Years 2001 and 2002, and Fiscal Year 2002, showed administrative expenses of \$124,944.46 and total expenses of \$1,249,475.61. This is within the 10 percent limitation.

We performed audit testing to verify that WIA participants reported were actually in the WIA program. We also confirmed that WIA participants reported as receiving training actually received training. We judgmentally selected 27 participants from the WIB’s list of 1,478 participants in the WIA program from July 1, 2001, through March 15, 2004. All 27 participants stated they were in the WIA program. Nineteen of these 27 participants were enrolled in WIA training per the WIB records. All 19 stated they were actually in WIA training. MDWD’s records of the PIC’s WIA participants’ training data revealed the PIC enrolled WIA participants in training in each month between July 2001 and March 2004, except for July 2003. Therefore, the allegation that no one was placed in a training activity for approximately 1 year is unsubstantiated.

### **Recommendations**

We recommend that the Assistant Secretary for Employment and Training ensure that:

1. MDWD develop and document a policy to immediately report criminal fraud, waste, abuse, or other criminal activity to the DOL OIG, in accordance with 20 CFR 667.30; and
2. ETA staff immediately report allegations of wrongdoing or misconduct related to DOL programs and operations to the OIG, in accordance with DLMS 8, Chapter 700.

### **MDWD Response**

MDWD has developed and put into place a policy to immediately report criminal fraud, waste, abuse, or other criminal activity to the DOL OIG. See Attachment for the complete MDWD response to the draft report.

**OIG Conclusion**

MDWD provided a copy of DWD Issuance 02-03, which implements Recommendation 1. Both recommendations will be resolved during DOL's formal resolution process.

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The subject final report is submitted for your resolution action. We request a response to this report within 60 days. It is your office's responsibility to transmit the attached report promptly to the program officials for resolution.

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

Attachment

cc: Laura Patton Watson, Grant/Contracting Officer  
Division of Resolution and Appeals Closeout Unit  
Phyllis Newby



**Grantee's Response to Draft Report**

**MISSOURI**  
DEPARTMENT OF ECONOMIC DEVELOPMENT

Matt Blunt  
Governor

Gregory A. Steinhoff  
Director

Division of Workforce Development

Steven A. Kraus  
Interim Director

March 4, 2005

Mr. Charles M. Allberry  
Regional Inspector General for Audit  
U.S. Department of Labor  
Office of Inspector General  
230 South Dearborn Street, Room 744  
Chicago, Illinois 60604

Dear Mr. Allberry:

Please accept this letter as the Missouri Division of Workforce Development's (MDWD's) response to Draft Report No. 05-05-001-03-390 regarding Complaint #3C-03-390-0072 which pertains to Missouri Service Delivery Area 7.

MDWD finds the above mentioned draft report to be acceptable, and offers no changes to the content of the report.

MDWD has developed and put into place a policy to immediately report criminal fraud, waste, abuse, or other criminal activity to the Department of Labor, Office of Inspector General, in accordance with 20 CFR 667.30 as recommended in your report.

Should you have questions, please feel free to contact me at (573) 751-3349.

Sincerely,



Steven A. Kraus  
Interim Director

SAK/RM/PB

c: Rob Mock