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Office of Inspector General—Office of Audit

**EMPLOYMENT AND TRAINING
ADMINISTRATION**



AUDIT OF THE DOL EARMARKED GRANTS AWARDED TO THE WEST VIRGINIA HIGH TECHNOLOGY CONSORTIUM FOUNDATION

Date: March 31, 2009
Report Number: 03-09-001-03-390

BRIEFLY...

Highlights of Report Number 03-09-001-03-390, to the Deputy Assistant Secretary for Employment and Training.

WHY READ THE REPORT

The Office of Inspector General (OIG) audited three earmarked grants awarded by DOL's Employment and Training Administration (ETA), under the authority of the Workforce Investment Act (WIA), to the West Virginia High Technology Consortium Foundation (WVHTCF), a 501(c)(3) non-profit organization located in Fairmont, West Virginia. The three grants totaled \$1,891,450 and were secured through earmarked funds in the DOL spending bills for fiscal years (FYs) 2002, 2003, and 2005. WVHTCF is a regionally-based high tech, non-profit organization that received the DOL grants to develop the Network Learning Alliance in order to develop training curricula to meet specific employer needs and industry-recognized skills and knowledge. The training would provide workers "portable" credentials tied to either national skill standards or industry certifications. High-tech employers, meanwhile, would have access to customized training for their immediate and long-term needs, promoting the growth of their companies and the local economy.

WHY OIG CONDUCTED THE AUDIT

OIG conducted the audit to answer the following questions

1. Did WVHTCF accomplish the grants' objectives?
2. Did WVHTCF only charge costs to the grants that were reasonable, allowable, and allocable?

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to: <http://www.oig.dol.gov/public/reports/oa/2009/03-09-001-03-390>

MARCH 2009

AUDIT OF THE DOL EARMARKED GRANTS AWARDED TO THE WEST VIRGINIA HIGH TECHNOLOGY CONSORTIUM FOUNDATION

WHAT OIG FOUND

WVHTCF could not demonstrate that it accomplished the grants' objectives. While WVHTCF developed and implemented the Network Learning Alliance web-based training system, it reported inaccurate and unreliable company enrollment and participant training data, and did not have a plan on how to report performance outcomes for employment retention and wage gains.

Additionally, WVHTCF charged \$829,890 in costs to the grant that were not reasonable and allowable. This primarily included \$748,549 in non-competitive awards that were not adequately justified. Other costs charged by WVHTCF that were not allowable were excessive administrative costs totaling \$41,498 and significant increases to two budget line items not approved by ETA totaling \$39,843.

WHAT OIG RECOMMENDED

We made six recommendations to the Assistant Secretary for Employment and Training. Foremost among our recommendations was to require WVHTCF to develop and implement policies and procedures for a reporting system that will provide accurate and reliable performance and outcome data. We also recommended that the Assistant Secretary for Employment and Training recover questioned costs of \$829,890.

WVHTCF officials responded that there is no basis for the finding that they did not report accurate and reliable performance data because they were able to obtain testimonials supporting participation. WVHTCF officials responded that they collected pricing data that validates that the subcontractor price was the most reasonable. Finally, WVHTCF officials stated that they followed DOL guidance for calculating administrative costs and that the expenditures for the budget line items questioned should have been classified differently and resulted in no changes requiring ETA approval.

WVHTCF's response did not change the audit's Findings and Recommendations.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



March 31, 2009

Assistant Inspector General's Report

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The U.S. Department of Labor (DOL), Office of Inspector General (OIG), audited three earmarked grants awarded by DOL's Employment and Training Administration (ETA), under the authority of the Workforce Investment Act (WIA), to the West Virginia High Technology Consortium Foundation (WVHTCF), a 501(c)(3) non-profit organization located in Fairmont, West Virginia. The three grants totaled \$1,891,450 and were secured through earmarked funds in the DOL spending bills for fiscal years (FYs) 2002, 2003, and 2005.

WVHTCF is a regionally-based based high tech, non-profit organization that received the DOL grants to develop the Network Learning Alliance in order to develop training curricula to meet specific employer needs and industry-recognized skills and knowledge. The training would provide workers "portable" credentials tied to either national skill standards or industry certifications. High-tech employers, meanwhile, would have access to customized training for their immediate and long-term needs, promoting the growth of their companies and the local economy.

The three grants supported a phased development in which the objectives of the first and second grants were to develop and implement a web-based training system and enroll 50 companies into the system. The web-based training system would then develop and deliver:

- technical training to 50 Information Technology (IT) workers;
- Federal marketplace¹ training to 50 IT workers;
- 12 web-based seminars on critical training topics that reach 180 workers; and
- an evaluation process to assess the effectiveness of the program and report the results to the 50 participating companies.

The third grant's purpose and objectives were to develop a training competency system using the web-based training system and report performance outcomes on the number

¹ This refers to companies that have contracts with the Federal government.

of participants enrolled in training, the number of training courses available, the completion rate of participants enrolled in training, the percent of workers trained who were still employed after training, and the percent of participants trained and employed who had a wage increase.

The audit objectives were to answer the following questions:

1. Did WVHTCF accomplish the grants' objectives?
2. Did WVHTCF only charge costs to the grants that were reasonable, allowable, and allocable?

The audit covered the three DOL earmarked grants awarded to WVHTCF. The audit scope included performance data and costs reported for the first two grants, which were completed. For the third grant, which is on-going and scheduled to end in May 2009, the audit covered costs reported as of March 31, 2008, which was the current reported cost at the time we started our on-site audit work at WVHTCF in May 2008. WVHTCF did not report any performance or outcome data at this time for the third grant. We audited 76 percent of the \$1,753,595 of the Federal share costs that WVHTCF charged for all three grants as of March 31, 2008 (See Exhibit 1).

To accomplish our objectives, we gained an understanding of the grants' objectives by reviewing applicable criteria and information and interviewing WVHTCF management and staff responsible for administering the grants. We tested the performance data reported by WVHTCF to determine whether it was accurate and reliable and we tested costs reported by and reimbursed to WVHTCF to determine whether they were reasonable, allowable, and allocable.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards for performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

RESULTS IN BRIEF

WVHTCF could not demonstrate that it accomplished the grants' objectives to train workers so they would obtain "portable" credentials tied to either national skill standards or industry certifications and provide high-tech employers access to customized training for their immediate and long-term needs. While WVHTCF developed and implemented the Network Learning Alliance web-based training system, it reported inaccurate and unreliable company enrollment and participant training data, and did not have a plan on how to report performance outcomes for employment retention and wage gains.

Additionally, WVHTCF charged \$829,890 in costs to the grant that were not reasonable and allowable. This primarily included \$748,549 in non-competitive awards that were not adequately justified. Other costs charged by WVHTCF that were not allowable were excessive administrative costs totaling \$41,498 and significant increases to two budget line items not approved by ETA totaling \$39,843. Overall, we questioned \$829,890 in costs charged to the grants.

In their response to the draft report, WVHTCF officials disagreed with the audit findings. WVHTCF officials agreed to take steps on their performance reporting system that will be responsive to the audit findings and recommendations. However, WVHTCF officials responded that there is no basis for the finding that they did not report accurate and reliable performance data because they were able to contact over 50 companies and 60 participants and received testimonials verifying their participation. WVHTCF officials stated that all prices for deliverables charged to the grant were reasonable and allowable, all procurement policies and procedures were followed, and contract awards were based on sound judgment and common sense. WVHTCF officials responded that they collected reliable pricing data for the time period from several vendors validating that the subcontractor price was in fact the lowest and most reasonable for the most suitable technical platform. WVHTCF officials stated that they followed the written directions from DOL regarding the calculation of General and Administrative costs. WVHTCF said that the expenditures for the budget line items questioned should have been classified differently which would have resulted in no changes requiring ETA approval.

See Appendix D for the complete response.

Our analysis of WVHTCF's response and the additional documentation provided after the audit field work did not result in any changes to the Findings and Recommendations.

RESULTS AND FINDINGS

Objective 1 – Did WVHTCF Accomplish the Grants' Objectives?

WVHTCF cannot demonstrate that it accomplished the grants' objectives to train workers so they would obtain portable credentials tied to either national skill standards or industry certifications and provide high-tech employers access to customized training for their immediate and long-term needs. While WVHTCF developed and implemented the Network Learning Alliance web-based training system to provide the training, it reported inaccurate and unreliable company enrollment and participant training data and did not have a plan on how to report performance outcomes for employment retention and wage gains. This occurred because WVHTCF did not implement an effective reporting system and policies and procedures to ensure that it reported accurate and reliable performance and outcome data. As a result, ETA does not have the necessary information to evaluate the accomplishments of the grants as WIA requires.

Finding 1 – WVHTCF Could Not Demonstrate that It Met the Grants' Objectives in the Delivery of Training

WVHTCF did not report accurate and reliable performance data for the Network Learning Alliance web-based training system, the primary objective for the first two DOL grants. We found inadequate support for the reported number of companies enrolled and the number of participants trained. This occurred because WVHTCF did not implement an effective reporting system that provided accurate and reliable data on the use of Network Learning Alliance web-based training system. The reporting system was not effective because WVHTCF manually extracted data from the web-based training system and did not establish policies and procedure on how to compile and report data. As a result, WVHTCF cannot demonstrate that the Network Learning Alliance web-based training system achieved its overall objective – to meet the demand for IT workers in the WV region and provide workers short-term training to help them advance in existing careers or prepare them for new careers in the IT field.

Federal regulations² require grantees to manage each project and report on the progress towards meeting established goals by comparing actual accomplishments with the established goals and objectives.

For the first two grants, WVHTCF proposed creating, developing, and implementing the Network Learning Alliance's web-based training system. The following table lists the objectives provided in the grant agreements:

Table 1 - Grant Objectives

- | |
|---|
| 1. Enrollment Services by engaging companies through Affiliate Membership, establishing an on-line enrollment process, and sending training announcements to companies or individuals who enrolled. |
| 2. Deliver Technical Training by developing and implementing training methods, developing the training to be delivered, and conducting the training. |
| 3. Deliver Federal Marketplace Training by developing and implementing training methods, developing the training to be delivered, and conducting the training. |
| 4. Deliver Web-based Seminars through a Rapid-Response Model by identifying and creating a prioritized list of critical training topics, creating, conducting, and evaluating rapid-response web-based seminars. |
| 5. Evaluate the Effectiveness of the Training Provided by developing and implementing an evaluation process to address the effectiveness of the program. |

WVHTCF reported the performance results in its November 2007 Final Report to ETA for the second grant. The Final Report provided the names of companies, participants, and training courses for each of the performance measure results. The results showed that WVHTCF met or exceeded their planned measures for Objectives 1 through 4. The Final Report did not provide a conclusion on whether or not it accomplished Objective 5.

² Title 29 the Code of Federal Regulations (CFR) Part 95.51(a) and (d)

The performance data in the report for the objective (provided accountability reports on 33 individuals) did not match the planned measure in the grant agreement (provide accountability reports to 50 participating companies). The following table provides the planned goal and the reported results from WVHTCF’s Final Report for each objective:

| Objectives | Planned Measures | Reported Results |
|--|--|---|
| 1. Companies Enrolled | 50 Companies | 104 Companies |
| 2. Technical Training Delivered | 50 IT Workers | 99 IT Workers |
| 3. Federal Marketplace Training Delivered | 50 IT Workers | 107 IT Workers |
| 4. Web-based Seminars through a Rapid-Response Model | 12 Web-based Seminars to 180 Workers | 28 web-based Seminars to 294 Workers |
| 5. Evaluate the Effectiveness of the Training Provided | Provide Accountability Reports to 50 Participating Companies | Provided Accountability Reports on 33 Individuals |

From information in WVHTCF’s Final Report to ETA, we identified 104 companies enrolled and 370 participants trained in one or more of the courses in the Network Learning Alliance web-based training system. To determine the accuracy and reliability of performance data in the Final Report, we selected a random sample of 51 companies and 52 participants to contact about their experience in the Network Learning Alliance. We also analyzed data contained in the Network Learning Alliance web-based training system.

The results of our sample of companies and participants and our analysis of data in the Network Learning Alliance web-based training system showed data in the Final Report were not accurate or reliable.

Reported Companies Enrolled

We were only able to contact 7 of the 51 companies selected in our sample to verify enrollment in WVHTCF’s Network Learning Alliance. Of the seven companies contacted, three company representatives confirmed that they enrolled in the Network Learning Alliance, two company representatives said they were not enrolled, and two company representatives were unsure if they were enrolled. WVHTCF either did not have contact information, or had incorrect or incomplete information for 36 companies sampled. Six companies sampled did not respond to our attempts to contact them and we did not contact two companies sampled for internal reasons. The following table summarizes our results:

Table 3 – Audit Results of Testing Sample of 51 Companies Enrolled

| Results | Number of Companies | Percent |
|--|----------------------------|----------------|
| No Contact Information Available From WVHTCF | 26 | 51 |
| Incorrect or Incomplete Contact Information | 10 | 19 |
| No Response to Our Attempts to Contact | 6 | 12 |
| Company Not Enrolled | 2 | 4 |
| Company Enrolled | 3 | 6 |
| Company Unsure of Enrollment | 2 | 4 |
| Not Contacted for Internal Reasons | 2 | 4 |
| Total | 51 | 100 |

Reported Participants Trained

We were only able to contact 21 of the 52 participants in our sample to verify they received training in the Network Learning Alliance. Of the 21 participants contacted, 9 participants confirmed that they received training and 12 told us they did not receive any training. WVHTCF either did not have contact information, or had incorrect or incomplete information for 12 participants sampled. We did not receive responses from 17 participants we attempted to contact, and we did not contact two participants sampled for internal reasons. The following table summarizes our results:

Table 4 - Audit Results of Testing Sample of Participants Trained

| Result | Number of Participants | Percent |
|--|-------------------------------|----------------|
| No Response to Our Attempts to Contact | 17 | 33 |
| Did Not Receive Training | 12 | 23 |
| Incorrect or Incomplete Contact Information | 10 | 19 |
| Received Training | 9 | 17 |
| No Contact Information Available From WVHTCF | 2 | 4 |
| Other Reasons | 2 | 4 |
| Total | 52 | 100 |

WVHTCF officials provided us several reasons for the lack of contact information for some of our sampled companies and participants. They said WVHTCF initially developed the Network Learning Alliance online platform as a rapid response training system which would allow users to enroll, log in, and begin training immediately. As such, they designed the system with an open enrollment that allowed anyone to sign up. Currently, the system does not require an individual to submit all desired information for enrollment; subsequently, some contact information is not readily available. Also, some of the users were enrolled in 2005 and are no longer employed with the same company;

therefore they were not immediately accessible. Consequently, these users are enrolled in the system but do not have accurate contact information in the system. To correct this issue, WVHTCF officials said they will require that all fields be completed in order to have access to the system.

WVHTCF officials cited several reasons why participants may have told OIG they did not receive training. First, the Network Learning Alliance also worked with the National Center for Law Enforcement Training and Technology Commercialization (NCLETTTC) to provide courses on web-based training. Users were able to visit the NCLETTTC website, enroll, log in, and have a seamless transition to the Network Learning Alliance without seeing the front-end of the site. Though the Network Learning Alliance was clearly represented on "My Learning Page," these particular users would most likely not be able to associate their training with NCLETTTC and the Network Learning Alliance. Second, some participants may have been confused if the auditors used the terminology "IT Institute" instead of the "Network Learning Alliance." Enrollees would not have recognized the terminology, and being confused by the question, replied they did not receive the training.

Analysis of Participant Data in the Network Learning Alliance Web-based Training System

Our analysis of data in the Network Learning Alliance web-based training system shows problems with the data in the Final Report. We analyzed training and enrollment data for the 52 participants sampled.

We tested participant training in the Network Learning Alliance web-based training system by determining if there was evidence the sampled participant actually completed the training as reported by WVHTCF in its Final Report to ETA. The analysis showed that only 9 of the 52 sampled participants appeared as a user in the Network Learning Alliance web-based training system. Additionally, 3 of these 9 participants had spent less than 10 minutes in the training courses, suggesting that courses were never completed.

We also tested participant training by determining if there was evidence that the 52 sampled participants were enrolled in the Network Learning Alliance. The analysis showed that all 52 participants were enrolled in courses that WVHTCF reported as being completed. It appears that WVHTCF may have used the User Enrollment Report instead of the Completed Events Report to report the number of participant trained in the Final Report.

WVHTCF officials informed us that they encountered numerous problems with the course tracking information. For example, some courses are not tracking the information and marking the individual as complete. When this occurs, the Network Learning Alliance team works directly with SkillSoft to resolve the issue to ensure the tracking issue is correct. Another example is that many users do not correctly exit the course which will keep the course recorded as "In Progress" rather than "Complete." The

Network Learning Alliance has recently incorporated a pop-up blocker to ensure that the user wants to exit the course to guarantee they do not lose vital course information.

WVHTCF officials stated that the Network Learning Alliance is an authorized reseller of SkillSoft content. SkillSoft has allowed its courses to be self-paced – allowing a user to manually click through a course. Even though the courses have a time associated with them, these times are an estimated time. SkillSoft had the user in mind when developing these courses. A user has the ability to take optional pre-tests, post-tests, and also click through a course at their own pace.

WVHTCF's Reporting System

WVHTCF used a manual reporting system to report the performance data in the Final Report. They manually extracted the information from the reports generated by the training system. WVHTCF did not have policies and procedures to address system weaknesses to ensure they compiled and reported accurate and reliable performance data. Using a manual process increases the risk that the data may be unreliable and inaccurate due to possible error from manual extractions from system generated report. WVHTCF officials told us that they did not deliberately attempt to report false data because they have been able to collect information that demonstrates that the reported data were accurate. WVHTCF officials explained that the collection of data to validate the performance and effort of the first two DOL grants was difficult and perhaps unnecessarily manual. They further explained that they are instituting an automated process to make it easier and more reliable in the future.

In their response to the draft report, WVHTCF officials did not agree with finding. While WVHTCF officials agreed to take steps on their reporting system that will be responsive to the audit finding, they stated that there is no basis for the finding that they did not report accurate and reliable performance data. WVHTCF officials responded that they were able to contact over 50 companies and 60 participants, and received supporting testimonials verifying their participation. They said this demonstrates that WVHTCF has been able to provide adequate and verifiable data that it met the grant objectives for enrollment and training. WVHTCF officials stated they have taken step to automate the reporting processes to make it less manual and responsive to the findings in the audit report.

WVHTCF's response did not change the finding. We analyzed the contact information received from WVHTCF that were part of our sample and made the appropriate revisions. However, the revisions did not result in a change to our conclusions concerning the reporting of performance data and outcomes.

Finding 2 – WVHTCF Is Unable to Report Job Retention Rates and Wage Increases for Those Participants that Received Training

WVHTCF was not prepared to report outcome measures for job retention rate and wage increases for the third DOL grant, which is ongoing. This occurred because WVHTCF

did not establish policies and procedures to ensure reliable data are collected. Therefore, WVHTCF may not be able to accurately report on the outcome measure results for job retention and wage increases which ETA needs to evaluate whether or not the grant objectives were met.

Federal regulations³ require grantees’ performance reports to contain brief information on:

- A comparison of actual accomplishments with the planned goals and objectives for the period;
- Reasons why established goals were not met, if appropriate; and
- Other pertinent information including, when appropriate, analysis, and explanation of cost overruns or high unit costs.

ETA needs accurate and reliable outcome data because WIA⁴ requires it to evaluate demonstration projects awarded under Section 171. The purpose of the evaluation is to improve the management and effectiveness of WIA programs. The evaluation should include the general effectiveness of such programs and activities.

The agreement for the third DOL grant stated that the Network Learning Alliance web-based training program will facilitate training opportunities to improve targeted competencies of the training participants. The grant provided a three-phase approach that will result in an effective strategy for participating organizations to begin to manage or adopt specific competency models supporting training and learning management. The following table provides the performance outcome measures WVHTCF established to demonstrate the success of the third grant:

| Table 5 – Planned Performance Outcome Measures and Goals | |
|---|---|
| Measures | Goals |
| 1. Enrollment Rate | By the completion of the project, the number of participants who have enrolled in training will be 500. |
| 2. Courses | The total amount of courses available in the training repository will be 30. |
| 3. Training Completion Rate | By the completion of the project, 75 percent of the participants will have completed training. |
| 4. Job Retention Rate | Of the incumbent workers that receive training, 75 percent will still be employed after training. |

³ Title 29 CFR Subtitle A, Part 95.51.

⁴ Workforce Investment Act of 1998, Title ID, Section 172

| | |
|-------------------|--|
| 5. Wage Increases | Of those who completed training and are employed by the end of the project, 25 percent will have a pay increase. |
|-------------------|--|

WVHTCF Process to Report on Grant Objective Performance Measures

WVHTCF did not have a process in place to measure the grant objectives for the job retention rate and wage increase. The data needed to measure these objectives would be job status and wages before and after the training is completed. Using our administrative access account, we obtained an understanding of the data elements in the Network Learning Alliance web-based training system and found they did not include the information needed to report on the job retention rate and wage increase. Although the grant did not specify a time period after training, ETA's WIA common measures for job retention rates and wage increases would require collecting employment and wage data as far as the third quarter after completing the training.

WVHTCF did not have policies and procedures describing the process to collect, analyze, and report on the measures for the job retention rate and wage increase objectives. Therefore, we were not able to evaluate the process to determine if it will report accurate and reliable performance data.

WVHTCF officials told us they did not ask for salary information in the enrollment process due to legal concerns regarding personal and privacy rights. The Network Learning Alliance is not a secure website; therefore, this information will be obtained through the Human Resource departments of the various companies. The Network Learning Alliance Program Manager is following up with companies who had employees complete the training. Results of these queries will be reflected in the final project report after the project is concluded in May 2009.

WVHTCF officials said that the grant did not require an actual management information system (MIS) for the purpose of reporting outcome measures. However, the Program Manager is in the process of developing a reporting system that not only implements a MIS, but will allow data to be retrieved in ranges and percentages. This site will be on the Network Learning Alliance server, but to ensure the information remains confidential, it will have a different site other than the Network Learning Alliance address. This page will be sent out to the company human resource manager or the company point-of-contact that handles the training and only the Network Learning Alliance team will have access to this document. The page will require a confidentiality notice that states that the WVTHC Foundation guarantees this information will be proprietary information and will only be used for reporting purposes to the DOL.

In their response to the draft report, WVHTCF stated it was premature and unrealistic for there to be a finding related to reporting when not reporting has yet taken place. However, WVHTCF officials stated they have taken step to automate the reporting processes to make it less manual and responsive to the findings in the audit report.

WVHTCF's response did not change the finding. The finding presents conditions that need to be addressed in order to have the ability to report accurate and reliable performance outcomes.

Objective 2 – Did WVHTCF Only Charge Costs to the Grants that Were Reasonable, Allowable, and Allocable?

WVHTCF charged \$829,890 in costs to the grant that were not reasonable and allowable. This primarily included \$748,549 in non-competitive awards that were not adequately justified. Other costs charged by WVHTCF that were not allowable were excessive administrative costs totaling \$41,498 and significant increases to two budget line items not approved by ETA totaling \$39,843. Overall, we questioned \$829,890 in costs charged to the grants.

Finding 3 – WVHTCF Did Not Adequately Justify Awarding Sole Source Contracts Totaling \$748,549

WVHTCF used non-competitive procurement methods to award most of the grant funds that were used for contracts more than \$10,000. The contractor, Information Research Corporation (IRC), received three contracts totaling \$748,549, which was 87 percent of the total amount awarded for all contracts more than \$10,000. WVHTCF did not adequately support the reasons used in their justifications for the sole source awards to IRC. Additionally, the Vice President of IRC was involved in the initial planning for the Network Learning Alliance before the grants were awarded, which we concluded is a conflict of interest. WVHTCF did not adequately justify the sole source contracts to IRC because it did not follow its procurement policies and procedures which required sole source awards be based on sound judgment and common sense and be fully supported. Additionally, WVHTCF did not recognize the conflict of interest situation involving IRC's Vice President. Since the IRC contracts were not awarded competitively and the reasons for the sole source awards were not adequately justified, WVHTCF could not demonstrate that it made the best decisions in awarding these sole source contracts to IRC and that the costs for the contracts were reasonable for the work performed.

Federal cost principles⁵ provide that in order for a cost to be allowable, it must be reasonable in that it does not exceed that which would be incurred by a prudent person and subject to generally accepted sound business practices. Federal regulations⁶ provide that materials and services obtained with Federal funds are procured in an effective manner and in compliance with Federal laws, regulations, and executive orders. The regulations also require that all procurement transactions be conducted in a manner to provide, to the maximum extent practical, open and free competition. Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. The price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices,

⁵ Office of Management and Budget (OMB) Circular A-122, Attachment A

⁶ Title 29 CFR, Parts 95.40, 95.43, and 95.45

and similar indicators, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.

Provisions in the agreements⁷ for the three grants required that all procurement transactions be conducted, as practical, to provide open and free competition. If a proposal identifies a specific entity to provide services, the ETA grant award does not provide the justification as a basis to sole source the procurement.

WVHTCF's procurement policies and procedures⁸ require that sufficient documentation must be present to ensure the continued integrity of the Foundation's procurement system. A justification for non-competitive action must be prepared in enough detail that would permit a person knowledgeable of sound procurement practices, but unfamiliar with the technical aspects of the requirement, to conclude that the action is reasonable. The policies and procedures state that supplies or services may be procured on a non-competitive basis only under the following circumstances:

- Only one known responsible source will satisfy the requirement.
- The item or service required is clearly proprietary and or technically unique.
- The customer directs use of the sole or single source.
- Security requirements preclude competition.
- Source was an original pre-qualified member of the proposal team.
- Services are required to be performed by the original manufacturer.
- Other compelling reasons or circumstances that justify a non-competitive procurement.

Under WVHTCF's policies and procedures, citing one of the above reasons as a basis for sole source or single source justification is also not sufficient; it must be fully supported before it can be considered acceptable.

Sole Source Contracts Awarded to IRC

The initial sole source contract was for support in developing, implementing, improving, and expanding a training educational platform that would deliver training services for the first DOL grant. This consisted of:

- Creating the training platform to serve as the key infrastructure for the Network Learning Alliance's web-based training system.
- Aligning the curriculum with the needs assessment report and integrating both commercially-available content and custom-developed content.
- Supporting the implementation of the actual training events.

⁷ Part IV, Special Clauses and Conditions

⁸ Chapter 402, Subcontracts, paragraph 403.3.5, Non-Competitive Acquisitions

- Creating a sustainability model for the Network Learning Alliance including the development of evaluation instruments and a business model based on cost analysis of the implementation phase.

The purpose of the second contract awarded to IRC, using funds awarded from the second grant, covered the continuation of the development and implementation of the Network Learning Alliance web-based training system. The contract's statement of work required IRC to support WVHTCF in developing and implementing a training/educational platform that could deliver training and educational services. The purpose of the third contract, using funds awarded from the third grant, was for IRC to support WVHTCF in developing and implementing a web-based competency model to assist in managing training needs. This consisted of designing a web-based competency model service, and then testing and implementing it into the Network Learning Alliance's web-based training system. The contract also required IRC to develop the component for evaluating the implementation of the web-based competency model. We concluded that awarding the initial contract to IRC for the implementation phase of the project gave IRC an advantage in bidding on future requests to support the Network Alliance's web-based training system.

Sole Source Justifications for IRC

The sole source justification for the first IRC contract stated that IRC, a small, West Virginia IT company, was uniquely positioned and qualified to perform the requirements of the contract for the following reasons:

1. The IRC Vice President has a doctorate in Instructional Technology and Curriculum and Instruction and has worked extensively with each of the project partners on past projects, as well as other facets of this overall workforce development effort, and has achieved very positive results.
2. IRC is a local corporation that is integrated with the North-Central West Virginia IT community, has unique knowledge of the overall conceptualization of the integration of the audience to be addressed and the content to be implemented, and the technology to be utilized, including the SP Learning Platform. The SP Learning Platform is the Learning Content Management System (LCMS) best suited to the goals and objectives of the project.
3. IRC is the sole proprietary owner of the SP Learning Platform and the only LCMS in West Virginia with an emphasis on Federal government agencies. IRC is also the only provider offering a flexible LCMS application with no per user licensing cost. The flexibility is critical to the ability of the IT Institute to integrate a variety of content packages from various programs.

The sole source justification listed five companies that provide LCMS and included a brief description of each company's strengths and weaknesses. The sole source

justification also stated that WVHTCF evaluated five companies with LCMS and noted the cost of working with these companies for their product alone would be a minimum of \$1 million. The justification stated that price reasonableness would be determined based on cost and price analysis techniques.

The sole source justifications for the second and third contracts were similar. The sole source justifications explained that IRC had the unique knowledge of the overall conceptualization of the integrations of the audience to be addressed, the content to be implemented, and the technology to be utilized (including the learning content management system that they designated for our use). The justifications also stated that the proposal for the DOL grant directly identified IRC as a partner in the above activities.

Sole Source Justifications for IRC Were Not Adequate or Supported

The sole source justifications for the IRC contracts were not adequate because they did not provide sufficient detail and support so a person knowledgeable about sound procurement practices, but unfamiliar with the technical aspects of the requirements, would conclude the action was reasonable. The following are inadequacies found for the sole source justification for the first IRC contract:

- The justification did not show how other available vendors with experience in developing web-based training systems could not have had the ability to integrate the needs of the audience and the learning content into a learning content management system (the web-based training system). Specifically, it is our opinion that WVHTCF did not provide a sufficient explanation to demonstrate that IRC was the only one known responsible source that will satisfy the requirement for developing web-based training systems.
- The justification did not demonstrate how IRC's knowledge of the overall conceptualization of the integration of the audience to be addressed, and the content to be implemented was unique. It also did not demonstrate how having this knowledge would have impeded other contractors who had experience in developing web-based systems from adequately responding to a request for proposal.
- The justification did not explain how IRC's SP Learning Platform was so technically unique that other web-based training systems from other vendors could not be considered.
- WVHTCF did not have documentation to support its analysis and conclusion of its evaluation of five companies with a LCMS and that the cost of working with these companies for their product alone would be a minimum of \$1 million. The justification stated that price reasonableness would be determined based on cost and price analysis techniques.

The sole source justifications for the second and third IRC contracts were not adequate concerning IRC's unique knowledge. The justifications failed to show how other available vendors with experience in developing web-based training systems could not have the ability to integrate the needs of the audience and the learning content into a learning content management system. Additionally, WVHTCF did not have any supporting documentation for the reasons provided in the justification. Finally, the grant agreement does not allow the inclusion of IRC in the grant proposal to be the basis for the justification to sole source the procurement.

IRC Vice President Involved in Initial Planning for the Network Learning Alliance

WVHTCF officials told us that the Vice President of IRC, cited in the sole source justifications, was involved in the initial concept of the Network Learning Alliance. At the time, the Vice President was not employed by IRC. We concluded this was a conflict of interest situation and should have been avoided by WVHTCF when awarding a sole source contract to IRC, considering the Vice President was involved in the initial conceptualization of the project.

WVHTCF officials concurred that the sole source justifications for the IRC contracts could have been written more specifically. They explained that the sole source justifications did not include other factors pertinent to IRC's involvement as a partner for developing the Network Learning Alliance (e.g., IRC was a strategic partner in developing its original concept). They explained:

- The concept resulted from an effort between the WVHTCF's Affiliate Program Manager and the IRC Vice President, whose primary product was a LCMS that he developed and which the IRC collaborated on free of cost. The Program Manager and the IRC Vice President worked together on the concept and eventually obtained funding to start gathering requirements and begin development. WVHTCF officials stated they had an obvious business obligation to continue working with the IRC Vice President given the premise for the project was his idea.
- WVHTCF officials said other organizations that were part of the project team assisted in assessing different LCMSs in the market place and concluded it was in the best interests of the project to use the IRC Vice President's LCMS. Their reasons were: it was functionally comparable to other commercial products, it could easily be modified to our unique requirements, developers were local so development costs would be reduced, and the IRC Vice President agreed to provide the basic software at no cost to the program.
- WVHTCF officials told us other LCMSs they evaluated were SkillSoft, Centra, KnowledgeNet, Saba, and OutStart.

WVHTCF officials stated that in retrospect, they could have more formally entered a Teaming Agreement with IRC; however, the collaboration and the use the IRC learning platform, free of cost, provided the basis for the continued teaming effort.

In their response to the draft report, WVHTCF officials stated that all prices for deliverables charged to the grant were reasonable and allowable, all procurement policies and procedures were followed, and contract awards were based on sound judgment and common sense. WVHTCF officials responded that since being notified of the finding in draft audit report, they collected reliable pricing data for that time period from several vendors that validates that the subcontractor price was, in fact, the lowest and most reasonable for the most suitable technical platform. This data has been provided to the audit team and is also now in the contract file. This price comparison data was provided by an independent third party group who specializes in these specific evaluations.

WVHTCF officials also responded that its contract staff conducted an analysis to determine a market range for all three project phases by the subcontractor. Three companies were contacted to help determine a price range and given a set of requirements that exactly matched the efforts of the subcontractor. The total award for this effort to the subcontractor was \$748,549. The first company was unable to respond because it was not within their core capabilities. The second company replied to our request with a quote of \$895,000. The third company replied to our request with a quote of \$927,000. These data were provided to the audit team.

Concerning the conflict of interest cited in the finding, WVHTCF officials responded that subcontractor did not participate in evaluations conducted to verify the products and the pricing portion of the effort. WVHTCF officials stated they followed up with the contract manager who worked for them at that time in question and the person confirmed that care was, in fact, taken by the contracts and management staff to ensure there was no involvement by the subcontractor. No one who participated in the group that reviewed options was related to the subcontractor or any of the company's employees. In addition, no one from the subcontractor had insight into the prices under review by the evaluation group.

WVHTCF's response did not change the finding. The pricing data cited in the response were collected after the audit work and were reconstructed. The results of the pricing data did not support one of the factors in the sole source justification that WVHTCF evaluated companies with LCMS and noted the cost of working with these companies for their product alone would be a minimum of \$1 million. Also, the response did not address other factors in the sole source justification cited in the audit as not adequately supported. These factors included how other available vendors with experience in developing web-based training systems could not have had the ability to integrate the needs of the audience and the learning content into the web-based training system and how the subcontractor's knowledge of the overall conceptualization of the integration of the audience to be addressed, and the content to be implemented was unique.

Concerning the conflict of interest with the subcontractor Vice President, we revised the report to ensure it did not indicate that the Vice President was involved in evaluating the product and pricing for the web-based training system. The audit concluded the conflict of interest existed because the Vice President was involved in the planning of the initial concept of the project.

Finding 4 – WVHTCF Charged General and Administrative Costs that Exceeded WIA Limitations

WVHTCF charged General and Administrative costs to the grants that exceeded the WIA administrative costs limitation. This occurred because WVHTCF did not implement policies and procedures to ensure DOL grants awarded under WIA complied with the administrative cost limitation requirements. As a result, WVHTCF charged \$41,498 in unallowable costs to the DOL grants.

The grant agreements for the DOL grants advised grantees that pursuant to 20 CFR, Part 667.210(b), there is a 10 percent limitation on administrative costs on funds administered under WIA. The grant officer may, however, approve additional administrative costs up to a maximum of 15 percent of the total award amount, if adequate justification is provided by the grantee at the time of the award. In no event, may administrative costs exceed 15 percent of the total award amount. The costs of administration shall include those disciplines enumerated in 20 CFR 667.220(b) and (c).

WVHTCF uses rates approved by the Department of Navy, Office of Naval Research, to charge General and Administrative costs. The rates are based on a percentage of total costs incurred, excluding pass-through agreements, land, and construction costs. The rates for the period of the grants (April 2003 when the first DOL grant started, to the end of our audit period in March 2008) ranged from 15.99 to 17.71 percent. ETA approved WVHTCF to charge administrative costs to the grants that were higher than the 10 percent limitation specified in WIA regulations. ETA approved General and Administrative cost rates of 14.68 percent, 14.9 percent, and 11.8 percent respectively for each of the three earmarked DOL grants.

We analyzed the General and Administrative costs charged to the DOL grants and found they exceeded the rates approved by ETA. Overall, WVHTCF charged \$41,498 in unallowable general and administrative costs. The following table provides the amount of administrative costs that exceeded the ETA approved rates:

Table 6 – Calculation of Unallowable General and Administrative Costs

| Grant | Direct Labor, Other Direct Cost, Fringe Benefits, Overhead | ETA Approved Administrative Cost Rates | Allowable General and Administrative Costs | General and Administrative Costs Charged | Unallowable General and Administrative Costs |
|-------------|---|--|---|--|---|
| DOL Grant 1 | \$ 598,360 | 14.68% | \$ 87,839 | \$ 102,327 | \$ 14,488 |
| DOL Grant 2 | \$ 604,309 | 14.90% | \$ 90,042 | \$ 99,332 | \$ 9,290 |
| DOL Grant 3 | \$ 347,082 | 11.80% | \$ 40,956 | \$ 58,675 | \$ 17,720 |
| Total | \$ 1,549,751 | | \$ 218,837 | \$ 260,334 | \$ 41,498 |

Although WVHTCF understood WIA’s limitation on administrative costs, they did not implement procedures to ensure they complied with the requirement. WVHTCF based the allowable general and administrative costs on the grant award amount rather than actual costs incurred.

In their response to the draft report, WVHTCF officials stated that they provided the audit team with data that demonstrates they followed the written directions included in the award document from DOL regarding the calculation of General and Administrative costs the grants. The documentation is included in all three grant awards and states that the approved administrative rates were to be applied against the "total grant award." The officials also stated that DOL closed the first two without instructing WVHTCF to change its process for calculating administrative costs. WVHTCF officials stated it is their position is that this is an internal issue within DOL and it should not be a finding.

WVHTCF’s response did not change the finding. It is our position that the rates should have been applied to the cost incurred as long as the total general and administrative cost did not exceed the approved rate applied to the grant award amount.

Finding 5 – WVHTCF Did Not Obtain Approval When It Made Significant Changes to Two Grant Budget Line Items

WVHTCF did not obtain the required ETA approval when it significantly increased budgeted line items for equipment and training for the first and second grants. This occurred because WVHTCF did not follow its policies and procedures and the grant agreement requirements. As a result, the ETA grant officer did not have the opportunity to evaluate the reasons for the revised budgeted line items and the impact on meeting the grant objectives. Therefore, we question \$39,843 in costs charged for these line items.

The grant agreements⁹ require prior written approval from the grant officer for changes in budget line items increased or decreased by more than 20 percent. WVHTCF policies

⁹ Part IV – Special Clauses, No. 1: Budget Line Item Flexibility

and procedures¹⁰ provide that significant budget changes (typically 10 percent or greater deviation within a budget line item) require approval from the Government program manager. Not until approval is received from the awarding agency will the program manager proceed with performance under the revised budget.

For the first DOL grant, WVHTCF did not budget funds for equipment and training. However, WVHTCF spent approximately \$7,039 on equipment, and \$17,860 on training which increased spending for each budgeted line item by 100 percent. For the second DOL grant, no funds were budgeted for equipment and training. However, WVHTCF spent approximately \$11,919 on equipment, and \$3,025 on training which increased spending for each budgeted line item by 100 percent. WVHTCF officials did not obtain prior approval to increase these budgeted line items more than 20 percent. The table below lists the grant funds spent on budget line items increased more than 20 percent.

Table 7 – Budget Line Items That Increased More Than 10 Percent.

| Grant | Budget Line Item | Budgeted Amount | Actual Funds Spent | Percentage Spent Over Budget |
|-------------|------------------|-----------------|--------------------|------------------------------|
| DOL Grant 1 | Equipment | \$ 0 | \$ 7,039 | 100 |
| DOL Grant 1 | Training | \$ 0 | 17,860 | 100 |
| DOL Grant 2 | Equipment | \$ 0 | 11,919 | 100 |
| DOL Grant 2 | Training | \$0 | \$3,025 | 100 |
| Total | | | \$ 39,843 | |

WVHTCF officials told us that overall categories for Direct Labor and Other Direct Costs were within the limitations stated both in their policy and ETA guidelines. WVHTCF officials stated they implemented a new accounting system which now has the capability to track budget line items against the actual costs; this will eliminate any deviation by line item in the future.

Although WVHTCF did not exceed the budget amounts for overall Direct Labor and Other Direct Costs, they exceeded the limitations for the individual line items cited in the finding details. Without obtaining the required prior approval, the ETA grant officer could not evaluate the reasons for the revised budgeted line items and the impact on meeting the grant objectives.

In their response to the draft report, WVHTCF officials stated that the expenditures in question should have been classified as supplies rather than equipment because they were under \$5,000. As a result, there was no increase or decrease in the "Supplies" or the other questioned categories by more than 20 percent. The project purchased the supplies as proposed thus; there was no need to obtain approval for a change. WVHTCF officials stated the same situation occurred for Training. The grant proposal described "staff training" related activities under the "Other" category. Again there was

¹⁰ WVHTCF Procedure Manual, Section 401.6.9.

no increase or decrease in that line by more than 20 percent. In the case of the \$17,860 expenditure noted in the audit report for "Training" under the first DOL Grant, it was not staff training, but rather a contract expenditure for a training course for the Network Learning Alliance system. This was described in the proposal budget under the "Contractual" category.

WVHTCF's response did not change the report finding. The items questioned appeared under the equipment and training accounts from WVHTCF's general ledger and these amounts should have been monitored against the approved grant budget.

Recommendations

We recommend the Assistant Secretary for Employment and Training:

1. Require WVHTCF to develop and implement policies and procedures for a reporting system that will provide accurate and reliable performance and outcome data from the Network Learning Alliance web-based training system on the following:

The companies enrolled and participants trained.

The outcome results for job retention rate and wage increases for participants trained.

2. Require WVHTCF to submit revised accurate and reliable performance data on the number of companies enrolled and participants trained under the Network Learning Alliance's web-based training system.
3. Require WVHTCF to follow its policies and procedures requiring sole source awards be based on sound judgment and common sense and be fully supported.
4. Require WVHTCF to develop and implement policies and procedures designed to ensure that DOL WIA grants administered under WIA meet the limitation on administrative costs.
5. Recover questioned costs of \$829,890, consisting of \$748,549 for sole source contract awards, \$41,498 in excessive administrative costs charged to the grants, and \$39,843 for increases to budgeted line items not approved by ETA.
6. Require WVHTCF to follow its policies and procedures for revising grant budget line items to ensure that prior approval is obtained from the ETA grant officer when revising the amounts budgeted more than 20 percent.



Elliot P. Lewis

Exhibits

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Exhibit 1

Cost Charged to the DOL Earmarked Grants and Costs Audited

| Expense | Total Costs Charged | | Total Costs Audited | |
|---|------------------------------|------------------------|---------------------|-----------------|
| | Amount Charged to DOL Grants | Percent to Total Costs | Amount Audited | Percent Audited |
| Total Direct Labor Costs | \$ 261,650 | 14.92 | \$ 261,650 | 100.00 |
| Non-Labor Direct Costs | | | | |
| Subcontractors | \$ 881,590 | 50.27 | \$ 511,397 | 58.01 |
| Training and Education | \$ 28,847 | 1.65 | | |
| Equipment | \$ 20,486 | 1.17 | \$ 19,249 | 93.96 |
| Travel | \$ 14,599 | 0.83 | \$ 14,599 | 100.00 |
| Materials and Supplies | \$ 8,558 | 0.49 | | |
| Interns | \$ 7,895 | 0.45 | | |
| Program Outreach | \$ 6,117 | 0.35 | | |
| Software | \$ 5,790 | 0.33 | | |
| Contractual | \$ 5,023 | 0.29 | \$ 5,023 | 100.00 |
| Meetings and Conferences | \$ 4,063 | 0.23 | \$ 4,063 | 100.00 |
| Subcontractors Travel | \$ 490 | 0.03 | | |
| Professional Fees | \$ 300 | 0.02 | | |
| Subcontractors | \$ 288 | 0.02 | | |
| Postage | \$ 284 | 0.02 | | |
| Memberships and Subscriptions | \$ 113 | 0.01 | | |
| Registrations | \$ 78 | 0.00 | | |
| Miscellaneous | \$ 25 | 0.00 | | |
| Total - Non-Labor Direct Costs | \$ 984,546 | 56.14 | \$ 554,331 | 56.30 |
| Fringe Benefits | \$ 125,529 | 7.16 | \$ 125,529 | 100.00 |
| Overhead Costs | \$ 142,082 | 8.10 | \$ 142,082 | 100.00 |
| General and Administrative Costs | \$ 247,785 | 14.13 | \$ 247,785 | 100.00 |
| Variance - Indirect Rates | \$ 1,759 | 0.10 | | |
| Total Indirect Costs¹¹ | \$ 517,155 | 29.49 | \$ 515,396 | 99.66 |
| Total Expenses Before Program Income | \$ 1,763,351 | | \$ 1,331,377 | 75.50 |
| Less: Program Income | \$ (9,755) | -0.56 | \$ (9,755) | |
| Total Expenses | \$ 1,753,596 | | \$ 1,321,622 | 75.36 |

¹¹ The audit of indirect costs consisted of verifying that the correct approved rates and bases were used.

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Appendices

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Background

Beginning in April 2003, DOL's ETA awarded three grants to WVHTCF totaling \$1,891,450. These were earmarked grants secured in the DOL spending bills in FYs 2002, 2003, and 2005. DOL is authorized to fund and operate earmarked grants as demonstration projects under Section 171 of WIA. The funds were directed to the IT Training Institute being developed by WVHTCF. After the grants were awarded, WVHTCF changed the name of the project to the Network Learning Alliance. The Network Learning Alliance was responsible for developing curricula to meet specific employer needs and incorporating industry-recognized skills and knowledge. Workers would gain "portable" credentials tied to either national skill standards or industry certifications. High-tech employers, meanwhile, would gain access to training that was tailored to their immediate and long-term needs, enhancing the possibilities for growth of their companies and the local economy.

The WVHTCF is a 501(c)(3) non-profit organization based in Fairmont, West Virginia, functioning as an engine of economic change for growing a statewide and regional high tech business sector. The WVHTCF has a consortium of companies and organizations, called the Affiliate Program, that work in technology or technology support lines of business with a demonstrable desire to do business in West Virginia. The mission of the program is to provide support to the members through the coordination of value-added services.

Together, the purpose of the ETA grants were to develop the Network Learning Alliance to meet the demand for IT workers and provide the workers in the North Central WV region with opportunities for short-term training that will either move them up career ladders or provide them with new careers in the IT field. This was a three-phased project. The first phase, funded by the first grant (referred to as DOL 1 by WVHTCF) awarded in 2003 for \$700,000 was to develop the plan for describing the needs and objectives of the Network Learning Alliance with its partner organizations and how it would be implemented, evaluated, and sustained. The second phase, funded by the second grant (referred to as DOL 2 by WVHTCF) awarded in 2004 for \$695,450, was to enroll companies in the Network Learning Alliance's web-based training system, deliver technical training, deliver web-based seminars through the rapid response model, and evaluates the effectiveness of the training. Specifically, the web-based training system would then develop and deliver:

- technical training to 50 Information Technology (IT) workers;
- Federal market place training to 50 IT workers;
- 12 web-based seminars on critical training topics reaching 180 workers, and
- an evaluation process that would address the effectiveness of the program and report the results to the 50 participating companies.

The third phase, funded by the third grant awarded in 2006 for \$496,000 (referred to as DOL 3 by WVHTCF), was develop a training competency system using the Network

Learning Alliance web-based training system. The competency management system would be available to organizations to create effective competency models and enable the use of these models to significantly improve training. The system would allow an organization to define job competencies that could include leadership competencies, organizational competencies, and technical competencies for a single job or job family. WVHTCF was required to report performance outcomes on the number of participants enrolled in training, the number of training courses available, the completion rate of participants enrolled in training, the percent of workers trained who were still employed after training, and the percent of participants trained and employed who had a wage increase.

At the time of our audit, the third phase and grant was scheduled to be completed by May 2009, although the Network Learning Alliance program and website are operational.

Appendix B**Objectives, Scope, Methodology, and Criteria**

Objectives

The audit objectives were to answer the following questions:

1. Did WVHTCF accomplish the grants' objectives?
2. Did WVHTCF only charge costs to the grants that were reasonable, allowable, and allocable?

Scope

DOL OIG, audited three earmarked grants awarded by DOL's ETA, to WVHTCF, a 501(c)(3) non-profit organization located in Fairmount, West Virginia. ETA awarded the earmarked grants under the authority of WIA. The three grants totaled \$1,891,450 and were secured through earmarked funds in the DOL spending bills for FYs 2002, 2003, and 2005.

The audit scope included performance data and costs reported for the first two grants, starting April 2003 and through August 2007. The costs reported for these grants totaled \$1,390,445. These grants were completed. The audit scope for the third grant included costs reported starting June 23, 2006, through March 31, 2008. This was the total costs reported at the time we started our on-site audit work at WVHTCF in May 2008. As of March 31, 2008, WVHTCF reported for this grant costs totaling \$363,150 and did not yet report performance outcome data. This grant is on-going and scheduled to end in May 2009. We audited 76 percent of the \$1,753,595 of the Federal share costs that WVHTCF charged for all three grants as of March 31, 2008 (See Exhibit 1).

We conducted this audit in accordance with Generally Accepted Government Auditing Standards for performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

A performance audit includes an understanding of internal controls considered significant to the audit objectives and testing compliance with significant laws, regulations, and other requirements. In planning and performing our audit, we considered whether internal controls significant to the audit were properly designed and placed in operation. This included reviewing WVHTCF's policies and procedures for administering grants. We confirmed our understanding of these controls and procedures through interviews and documentation review

We performed the audit field work from May to October 2008. A significant portion of the audit documentation consisted of records and documents received from ETA and WVHTCF. We conducted an on-site visit to WVHTCF's office in Fairmont, West Virginia the week of May 19, 2008. We requested additional records and documents from WVHTCF staff in order to accomplish the audit objectives.

Methodology

In designing the audit, we obtained an understanding of the grants' objectives by reviewing the grant agreements, grant modifications, WVHTCF progress reports, and ETA monitoring reports. We also interviewed WVHTCF management and staff responsible for administering the grants. We identified criteria key to the administration of the DOL earmarked grants in the grant agreements, WIA regulations, the Uniform Administrative Requirements in 29 CFR Part 95, and cost principles in OMB Circular A - 122. We also reviewed applicable WVHTCF policies and procedures. We conducted procedural walkthroughs with WVHTCF managers and staff to obtain an understanding of administrative, financial, and procurement procedures for reporting performance data and charging costs to the DOL grants. We reviewed documentation supporting companies enrolled and participants trained in the Network Learning Alliance web-based training system and documentation supporting expenses charged to the grants.

In performing the audit, we evaluated internal controls used by WVHTCF for reasonable assurance that the DOL grants were administered in accordance with Federal and internal requirements. Our consideration of WVHTCF's internal controls for administering the DOL grants would not necessarily disclose all matters that might be reportable conditions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and may not be detected.

We assessed the reliability of performance and financial data. For the performance data, we performed analytical procedures to assess the reliability of the data by testing a statistical random sample of companies and participants. We also compared this data to management reports from the web-based training system. We performed analytical procedures of this data to assess its reliability. We concluded that data reported to ETA were not sufficiently reliable. For the financial data, we used WVHTCF's general ledger to test costs charged to the DOL grants. We performed analytical procedures to assess the reliability of the general ledger and performed testing on a judgmental sample of line item expenses. We determined that WVHTCF's general ledger had the ability to allocate costs to the proper costs objective and was sufficiently reliable to perform our testing.

To determine the accuracy and reliability of performance data reported by WVHTCF, we randomly sampled companies and participants reported by WVHTCF in their Final Report to ETA for the second grant. We selected a random sample of 51 companies and 52 participants for the purpose of contacting them about their enrollment and training experience in the Network Learning Alliance. We selected our sample from two

separate universes to evaluate for any discrepancies of reported company enrollment and participants training and to evaluate for any kind of deviation from meeting the grant compliance. The universes consisted of 104 companies enrolled and 370 participants trained. We created the universe of participants trained by combining the lists of participant names shown in the Final Report for the second grant by objectives three through five. We adopted a simple random sampling to draw the sample from the universe of 370 participants using an audit analytical software random number generator. We stratified the universe of 104 companies into 4 stratum based upon their number of employees and applied a proportional sample allocation methodology for each stratum. The samples were drawn from each stratum using a random number generator. We did not project the results of our sample.

For the companies enrolled, we determined that a sample size of 51 companies was sufficient to meet the targeted precision of +/- (plus or minus) 7 percent at 95 percent confidence level. For the participants trained, we determined that a sample size of 52 participants was sufficient to reach a targeted sampling precision of +/- 9 percent at 95 percent confidence level for the universe of 370 participants. The audit used classical sampling theory to determine the sample size for both universes.

We attempted to contact company representatives and participants. We asked the following questions of the company representatives:

1. Is your company enrolled in WVHTCF's IT Institute?
2. What is your position at your company?
3. Approximately when did your company enroll?
4. Who is your point of contact at WVHTCF?
5. How many employees at your company have taken training?
6. Does your company pay an annual membership fee to be a member of the Affiliate Program?
7. If so, how much are the annual fees?
8. How many people are employed at your company?

For the participants, we asked the following questions:

1. Have you taken courses from the Network Learning Alliance, also known as West Virginia High Technology Foundation IT Institute?
2. Do you recall how many courses you have taken?

3. Do you recall the names of the courses you have taken?
4. Do you recall if there was a fee associated with the training courses you took?
5. What is your position title at your current employer?
6. Were the courses you took beneficial?
7. Did they help you in your current job position?

We also performed analytical procedures on the data contained in the Network Learning Alliance web-based training system. We analyzed participant training data to determine if there was evidence that the sampled participant actually completed the training reported by WVHTCF. We accomplished this by determining if the participants in our sample were listed in the Network Learning Alliance Completed Events Report. We obtained the Network Learning Alliance Complete Events Report using an administrator account provided by the WVHTCF. The Completed Events Report contained the following data used in our analysis:

Participant Name (User Name)
Training Course (Event)
Date Started
Date Completed
Pre-Test Score
Post-Test Score
Total Time (Hours, Minutes, Seconds)

We analyzed the participant enrollment data to determine if there was evidence that the sampled participants were enrolled in the Network Learning Alliance. We accomplished this by comparing the sampled participants listed in the Final Progress Report for the second grant to those listed in the Network Learning Alliance User Enrollment Report. We obtained the Network Learning Alliance User Enrollment Report using an administrator account provided by WVHTCF. The User Enrollment Report contained the following data used in our analysis:

Training Course
User Name Enrolled in the Training Courses
Date Enrolled

To determine whether WVHCTF charged reasonable, allowable, and allocable costs to the grants, we tested the labor, travel, equipment, and contract costs charged to the grant and tested whether WVHTCF used approved rates to charged indirect costs and complied with WIA regulations for charging administrative costs. We tested 100 percent of the labor costs and a judgmental sample of travel, equipment, and contract costs.

We reconciled WVHTCF's cost reported to ETA in the Financial Status Reports (FSR) to its general ledger. We also reconciled the amount of grant funds WVHTCF drew down to the FSRs and the general ledger. To audit labor costs we traced the labor hours to a judgmental sample time sheets to determine if they were supported and properly allocated. To determine if the reported costs were accurate, we used the labor hours from the time sheet and established salary information from personnel records.

Our testing of travel and equipment costs consisted of obtaining and reviewing supporting invoices and verifying they supported the costs and were incurred according to established criteria. Our testing of contract costs consisted of obtaining and reviewing procurement and contract documents. We also reviewed invoices to support the costs charged. Our audit of fringe benefits and overhead costs consisted of determining if approved rates were properly applied to the correct cost base. Our review of general and administrative costs consisted of determining if the ETA approved rates were properly applied to the correct cost base.

Criteria

We used the following criteria to accomplish the audit objectives.

Grant Agreement – WVHTCF – Grant No. AF-12872-03-30 – FY 2003

Grant Agreement – WVHTCF – Grant No. AF-13777-04-60 – FY 2004

Grant Agreement – WVHTCF – Grant No. EA-15773-06-60 – FY 2006

WIA Final Rule (20 CFR Part 652)

Workforce Investment Act of 1998

OMB Circular A-122, 2004

OMB Circular A-110

Uniform Administrative Requirements 29 CFR Part 95

WVHTC Foundation Financial Policy

WVHTC Foundation Award Management Policy

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Appendix C

Acronyms and Abbreviations

| | |
|----------|--|
| CFR | Code of Federal Regulations |
| DOL | US Department of Labor |
| ETA | Employment and Training Administration |
| FSR | Financial Status Report |
| FY | Fiscal Year |
| IRC | Information Research Corporation |
| IT | Information Technology |
| LCMS | Learning Content Management System |
| MIS | Management Information System |
| NCLETTTC | National Center for Law Enforcement Training and Technology Commercialization |
| OIG | Office of Inspector General |
| WV | West Virginia |
| WIA | Workforce Investment Act |
| WVHTCF | West Virginia High Technology Consortium Foundation |

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Appendix D

WVHTCF Response to Draft Report



March 25, 2009

Zaunders C. Saucer
Audit Manager
U.S. Department of Labor
Office of Inspector General
200 Constitution Avenue, NW
Room N-4633
Washington, DC 20210
202.693.5253

**By: Federal Express Next Day Delivery and
Electronic Transmission to
saucer.zaunders@oig.dol.gov**

Re: Audit Report No. 03-09-001-03-390

Dear Ms. Saucer:


We appreciated the opportunity to meet with you on March 19, 2009 to discuss the final audit report by the Department of Labor. Enclosed please find our response to the Department of Labor's proposed findings.

Throughout this process, the WVHTC Foundation has identified areas in our current systems and controls to improve and gain efficiencies. We look forward to sharing those actions with you and the Department of Labor Grants Officer and implementing them within our contracting, financial and technical systems.

Finally, in light of the privacy and proprietary concerns of the individual person(s) and company or companies referenced in your final audit report, the WVHTC Foundation respectfully requests that those person(s)' names and company names be redacted in any public or on-line version of the final report.

Should you have any questions regarding the enclosed materials, please feel free to contact me by email at jestep@wvhtf.org or by telephone at 304-333-6814. We thank you for your time and support in working with us throughout this process.

Sincerely,



James L. Estep
President & CEO

Enclosures

cc: Michael Hill (hill.michael@oig.dol.gov)
Donald Evans (evans.donald@oig.dol.gov)

March 25, 2009

On behalf of the WVHTC Foundation (“WVHTCF”), we hereby submit the following report in response to the U.S. Department of Labor’s Audit Report No. 03-09-001-03-390.

WVHTCF RESPONSE TO FINDING 1:

The Department of Labor audit team noted in their report that the individuals and companies they contacted to verify participation in the Network Learning Alliance were non-responsive. The WVHTCF cannot explain why the audit team had these results; however, upon being informed by the audit team that they would be reporting this finding, the WVHTCF in a short period of time contacted over 60 individuals and 50 companies for clarification and received supporting testimonials verifying their participation. This information was provided to the Department of Labor and demonstrates that the WVHTCF has been able to provide adequate and verifiable data that it met the grant objectives for enrollment and training. Further this data validates that the WVHTCF did report reliable and accurate information. It is important to note that the grant did not call for the WVHTCF to automate the grant reporting systems or make it less manual. The WVHTCF’s position is that there is no basis for this finding due to the fact that the attached data has been provided to the audit team. Nevertheless, the WVHTCF has taken steps to automate the reporting processes and make it less manual and responsive to the Department of Labor audit report.

WVHTCF RESPONSE TO FINDING 2:

The WVHTCF’s response to Finding 2 is similar to its position on Finding 1. Again it is important to note that the grant did not call for the WVHTCF to automate its reporting system. As was demonstrated in the response for Finding 1, a manual process can meet government requirements for reporting. Further the WVHTCF believes it is premature and unrealistic for there to be a finding related to reporting when no reporting has yet taken place. Also, award performance reviews conducted by the Department of Labor had indicated the agency’s satisfaction with deliverables provided by WVHTCF. As with Finding 1, the WVHTCF is taking steps to address the concerns of the audit team.

WVHTCF RESPONSE TO FINDING 3:

It is the WVHTCF’s position that ALL PRICES FOR DELIVERABLES PROVIDED TO AND RECEIVED BY THE AGENCY AND PUBLIC AND CHARGED TO THE GRANT WERE REASONABLE AND ALLOWABLE. Further it is the WVHTCF’s position that ALL PROCUREMENT POLICIES AND PROCEDURES WERE FOLLOWED AND THE AWARDS WERE BASED ON SOUND JUDGEMENT AND COMMON SENSE. The WVHTCF has provided to the audit team information that fully supports these positions and demonstrates the reasonableness of all prices paid.

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The subcontract award that is the subject of this specific audit finding was for the purchase and customization of a learning management system. This learning management system would serve as the framework on which the Network Learning Alliance system would be based. The audit team included Finding 3 in their report because they could not find adequate price comparison data of various other learning management systems in the contract file validating the reasonableness of the award to the subcontractor. It should be noted that this price comparison data was referenced in the file.

In addition the audit team members were confused by the fact that the documentation for the sole source award to the subcontractor included references to the competitive technical and pricing evaluation summary but did not include an actual pricing data analysis. Normally a comparison like the one described in the documentation would mean a formal competition took place complete with pricing data and the file would not require a sole source justification. Yet the award to the subcontractor was classified as a "sole source." In this specific case a thorough comparison of various systems was independently conducted that found that the price of the subcontractor's system was the lowest cost before adding any required modification costs. However, the specific documentation supporting the competitive technical and price evaluations, which were informally completed, are missing from the contract file. The audit team concluded that the information that remained in the file was not adequate enough to support the sole source. Since being notified by the audit team that they would be including this finding in their report, the WVHTCF has collected reliable pricing data for that time period from several vendors that validates that the subcontractor price was in fact the lowest and most reasonable for the most suitable technical platform. This data has been provided to the audit team and is also now in the contract file. This price comparison data was provided by an independent third party group who specializes in these specific evaluations.

The explanation for the subcontract referenced as a sole source during the original award is because the subcontractor offered to provide their system at no cost for the project. The subcontractor offered to only charge for the required customization of the system. It had already been established that the subcontractor's system was the cheapest but the offer to use the system for free without any future licensing costs was significant. The WVHTCF's contract staff determined that this substantial cost savings substantiated the award based on the relevant technical and pricing evaluations. However, the data comparing other systems is not found in the contract file. This was likely due to staff turnover in the contracts department at that time. As already noted, the WVHTCF has now completed the contract file with this comparison data.

To collect this data, the current WVHTCF's contract staff contacted three learning management systems platform vendors and requested pricing data. They also

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contacted a leading LMS research company to collect third party independent evaluations of learning management systems for that time period. The initial award to the subcontractor was for support in developing, implementing, improving, and expanding a training educational platform that would deliver training services for the first Department of Labor grant. The initial award to the subcontractor was \$240,000 for Phase One. Although the subcontractor was required to perform a significant amount of customization to the system during the Phase One, the contract staff requested pricing data from three other vendors for simply buying their respective learning management platforms "off-the-shelf" with minimal customization to host in-house and support costs for one year.

- Company One pricing came back at \$225,000 for the base system plus \$48,000 for one year of maintenance and support for a total of \$273,000.
- Company Two pricing came back at \$291,600 for the base system plus \$61,236 for one year of maintenance and support for a total of \$352,836.
- Company Three was able to provide 2002 pricing data which came back at \$265,000 for the base system plus \$30,000 for one year of maintenance and support for a total of \$295,000.

The data collected by the contract staff also verified the reasonableness of the subcontractor price. Some of the 2003 pricing estimates for a one year hosted solution which did not include set-up charges were as follows:

- IBM Lotus Learning Management System (2003): \$480,000 to \$1,000,000
- Oracle iLearning (2003): \$384,000
- Saba3 Learning Release4 (2003): \$468,000
- Nebo (2003): \$305,000
- Docent Enterprise (2003): \$318,400

The contract staff also conducted a similar analysis to determine a market range for all three phases by the subcontractor. The total award for this effort to the subcontractor was \$748,549 which included Phase One described earlier. Three companies were contacted to help determine a price range and given a set of requirements that exactly matched the efforts of the subcontractor. This data was provided to the audit team. The first company was unable to respond because it was not within their core capabilities. The second company replied to our request with a quote of \$895,000. The third company replied to our request with a quote of \$927,000.

The audit team also concluded in Finding 3 that a conflict of interest existed. Evaluations were conducted to verify the products and the pricing portion of the effort, but the subcontractor did not participate in this effort. As follow-up, the WVHTCF's contract manager who worked for us at that time confirmed that care was in fact taken by the contracts and management staff to ensure there was no

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involvement by the subcontractor. No one who participated in the group that reviewed options was related to the subcontractor or any of the company's employees. In addition, no one from the subcontractor had insight into the prices under review by the evaluation group.

The audit team was given incorrect information from individuals who were not involved at this stage of the project and who were speculating and guessing as to the subcontractor's vice president involvement. Therefore the conclusion that a conflict of interest exists is factually inaccurate and based upon incorrect information.

WVHTCF RESPONSE TO FINDING 4:

The WVHTCF has provided the audit team with data that demonstrates that our finance staff followed the written directions included in the award document from the Department of Labor with regard to calculating the approved administrative or G&A costs to be charged to the Department of Labor grant. That documentation is included in all three grant awards and states that the approved administrative rates were to be applied against the "total grant award." The audit team informed the WVHTCF that it was supposed to apply administrative or G&A rates to a different cost base than the "total grant award" which is unrelated to the total grant award. At no time was the finance staff provided documentation or training that explained that procedure by the Department of Labor. The WVHTCF has carefully followed what it believed to be the proper process. In fact the first two grant awards were "closed out" by the Department of Labor without instructing the WVHTCF to change its process for calculating administrative costs. The WVHTCF's position is that this is an internal issue within the Department of Labor and that it should not be a finding.

WVHTCF RESPONSE TO FINDING 5:

The WVHTCF's contract staff compared the proposals and 424A's submitted to the Department of Labor to purchase orders that were processed under the grants. They did not find any expenditures that warranted classification as "Equipment" or "Training." The purchase orders for project computers, cameras and other items should have been classified as "Supplies." So there was no increase or decrease in the "Supplies" or the other questioned categories by more than 20%. The project purchased the supplies as proposed thus there was no need to get approval for a change.

The reason for proposing equipment under the "Supplies" category is that each purchase was estimated to be under \$5,000. The contracts staff only categorizes items as "Equipment" in proposals or reports, such as, 424A's, if they are over \$5,000. It appears that the audit team may have been confused because they were looking at some internal reports that listed these items as equipment generally and not as the official "Equipment" line item.

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The contract staff conducted the same analysis for the "Training" category and found basically the same situation. The proposal described "staff training" related activities under the "Other" category. Again there was no increase or decrease in that line by more than 20%. The contracts staff found that this agrees with what was reported on our 424A's. In the case of the \$17,860 expenditure noted in the audit report for "Training" under Department of Labor Grant 1 it was not staff training at all. This is an expenditure in which the project contracted with a training content provider for a "JAVA 2 Programming Curriculum" to go in the Network Learning Alliance system for a period of 12 months. This was described in the proposal budget under the "Contractual" category.

The reports we provided to Department of Labor properly described our expenditures per our approved proposal.

Throughout this process, the WVHTCF has identified areas in our current systems and controls to improve and gain efficiencies. We look forward to sharing those actions with the Department of Labor Grants Officer and implementing them within our contracting, financial and technical systems.

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IN ORDER TO REPORT FRAUD, WASTE OR ABUSE, PLEASE CONTACT:

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