

# U.S. Department of Labor

Office of Inspector General—Office of Audit

**EMPLOYMENT AND TRAINING  
ADMINISTRATION**



**NAVAJO NATION DID NOT ADEQUATELY  
MANAGE WORKFORCE INVESTMENT ACT  
GRANTS AND COULD SERVE MORE  
PARTICIPANTS WITH AVAILABLE FUNDS**

Date Issued: September 30, 2013  
Report Number: 02-13-202-03-355

## **BRIEFLY...**

Highlights of Report Number 02-13-202-03-355, issued to the Acting Assistant Secretary for Employment and Training.

### **WHY READ THE REPORT**

Section 166 of the Workforce Investment Act (WIA) of 1998 (PL 105-220) authorizes Congress to provide funds for the Indian and Native American Program (INAP). INAP-funded grants serve the workforce development needs of Indian and Native American youth and adults. Eligible recipients are Indian tribes, tribal organizations, Alaska Native entities, and Indian-controlled organizations serving Indians or Native Hawaiians.

In Program Years (PYs) 2010 and 2011, the Navajo Nation, the largest reservation in the United States, received \$24.3 million from the Department of Labor's Employment and Training Administration (ETA). These funds included \$17.5 million INAP grants and \$6.8 million in WIA state formula funds from Arizona, New Mexico, and Utah. Navajo Nation proposed using the funds to provide education, training, and employment services to 3,700 adults and 2,250 youth. The Navajo Department of Workforce Development (NDWD) administers INAP funds on behalf of the Navajo Nation.

### **WHY OIG CONDUCTED THE AUDIT**

Our audit objective was to answer the following question:

Did NDWD properly expend grant funds and achieve program targets in accordance with federal and grant requirements?

### **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/2013/02-13-202-03-355.pdf>.

**September 2013**

## **NAVAJO NATION DID NOT ADEQUATELY MANAGE WORKFORCE INVESTMENT ACT GRANTS AND COULD SERVE MORE PARTICIPANTS WITH AVAILABLE FUNDS**

### **WHAT OIG FOUND**

NDWD did not properly manage \$16.5 million, and did not always accurately report participant activities or meet targets. NDWD did not properly allocate and expend \$8 million of grant funds. Furthermore, unspent grant funds totaled \$13.4 million, of which \$8.5 million exceeded the maximum allowable amount to be carried over. Despite these excess funds, NDWD only served 62 percent of its planned number of adults, had waiting lists of prospective participants, and had policies that limited re-enrollment for participants that may have needed additional services.

ETA's Division of Indian and Native American Programs (DINAP) issued a monitoring report on NDWD grants. In the monitoring report, DINAP cited issues similar to those in this report. However, DINAP did not follow up on its recommendations and its own policy to review and address corrective action items.

Finally, we observed that the large amount of carryover funds was not unique to NDWD. Approximately one-third of all INAP grantees carried over a total of \$2.7 million more than WIA regulations allowed. ETA was aware of the large amount of unspent funds remaining at the end of each program year; however, it had yet to develop a policy to recapture and reallocate excess carryover funds.

### **WHAT OIG RECOMMENDED**

The OIG recommended the Acting Assistant Secretary for Employment and Training require NDWD to implement accounting policies and procedures for allocating costs and train staff on accurate data reporting and participant follow-up. We also recommended ETA recover questioned costs of \$8 million or obtain appropriate support; develop a policy for recapture and reallocation of excess carryover funds; and ensure appropriate follow-up is performed after on-site monitoring reviews.

ETA concurred with all recommendations except for the recommendation that ETA ensure NDWD train staff on data reporting and participant follow up. ETA stated that NDWD's performance reports were accurate and contended that tracking participants after exit presents a challenge to grantees. NDWD stated that it will coordinate with Navajo Nation's Office of the Controller (NNOOC) the recommendations on accounting policies and procedures, and the allocation of personnel costs and issues related to the majority of the report's questioned non-personnel costs.

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**U.S. Department of Labor**

Office of Inspector General  
Washington, D.C. 20210



September 30, 2013

## **Assistant Inspector General's Report**

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Acting Assistant Secretary  
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Section 166 of the Workforce Investment Act (WIA) of 1998 (PL 105-220) authorizes Congress to provide funds for the Indian and Native American Program (INAP). INAP-funded grants serve the workforce development needs of Indian and Native American youth and adults. The purpose of INAP grants is to fully develop academic, occupational, and literacy skills of eligible participants; make participants more competitive in the workforce; and promote economic and social development of Native American communities. For Program Years (PY) 2010 and 2011, the Navajo Nation, the largest INAP grant recipient, received \$24.3 million consisting of \$17.5 million WIA Section 166 funds, and \$6.8 million WIA funds provided by Utah, New Mexico, and Arizona. The Navajo Department of Workforce Development (NDWD) administers INAP grant funds on behalf of the Navajo Nation.

We conducted an audit to answer the following question:

Did NDWD properly expend grant funds and achieve program targets in accordance with federal and grant requirements?

The audit scope covered PYs 2010 and 2011 WIA grants awarded to the Navajo Nation. PYs 2010 and 2011 covered the periods July 1, 2010, to June 30, 2012, for the adult program, and April 1, 2010, to March 31, 2012, for the youth program. Our audit included expenditures of \$25.2 million and 4,523 participants served.

We performed field work at ETA headquarters in Washington, DC, and at NDWD administrative headquarters and 2 local workforce centers. A combination of random and judgmental sampling was used to select and test 295 non-personnel transactions of \$1.7 million, and judgmental sampling was used to select and test personnel transactions of \$3.0 million from NDWD's total claimed expenditures of \$25.2 million. Additionally, to determine services received and performance outcomes, we reviewed a statistical sample of 61 of 1,916, and 62 of 2,607 participants from the adult and youth programs, respectively. In addition, we requested unemployment insurance and wage

record data from Utah, New Mexico, Arizona, and Colorado to verify employment outcomes.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **RESULTS IN BRIEF**

NDWD did not properly manage \$16.5 million, and did not always accurately report participant activities or meet targets. Moreover, additional participants could have been served with available funds. NDWD did not properly allocate and expend \$8 million of grant funds, and did not use at least another \$8.5 million of grant funds to effectively serve its participants. We also found that NDWD did not meet targets for serving adult participants and youth high school dropouts, and fell short in improving their academic skills.

NDWD did not properly allocate and expend \$8 million of grant funds consisting of \$6.7 million of personnel and \$1.3 million of non-personnel costs. NDWD could not show that personnel costs of \$6.7 million were based on active participants, personnel activity reports, or an approved substitute system, as required by OMB Circular A-87. Additionally, we questioned non-personnel costs totaling \$1.3 million due to other unallowable expenditures.

Further, NDWD did not use all available grant funds to effectively serve its participants. As of the end of PY 2011, unspent grant funds totaled \$13.4 million, of which \$8.5 million exceeded the maximum allowable amount to be carried over into the following year. The Code of Federal Regulations 20 CFR 668.296(d) states that ETA may reallocate unspent funds in excess of 20 percent of the total funds available from one INAP grantee to another. Grantees may carry in amounts greater than 20 percent but less than 25 percent of total funds available if ETA's Division of Indian and Native American Programs (DINAP) approves and issues a waiver. Despite these excess funds, NDWD only served 62 percent of its planned number of adults, had waiting lists of prospective participants, and had policies that limited re-enrollment for participants that may have needed additional services.

We also found that NDWD did not meet targets for serving high school dropouts in the youth program and fell short in improving academic skills of this group. Moreover, NDWD did not always accurately report participant activities. As a result, NDWD officials did not have accurate data on program services and outcomes, and risked making program decisions based on that inaccurate data.

In December 2011, DINAP issued a monitoring report on NDWD grants. In the monitoring report, DINAP cited issues similar to those in this report regarding personnel, carryover funds, performance reporting, and participant follow-up. However, DINAP did not follow-up on its recommendations and its policy to review and address corrective action items.

Finally, we also observed that the large amount of carryover funds was not unique to NDWD. ETA awarded funds to 125 other Native American grantees. In PY 2011, approximately one-third of these grantees carried over a total of \$2.7 million more than WIA regulations allowed. ETA was aware of the large amount of unspent funds remaining at the end of each program year; however, it had yet to develop a policy to recapture and reallocate excess carryover funds. Instead, ETA asked grantees to voluntarily return unspent funds of which only one grantee complied.

We recommended the Acting Assistant Secretary for Employment and Training require NDWD to implement accounting policies and procedures to properly allocate personnel and non-personnel costs, and conduct training with staff on accurate data reporting and participant follow-up procedures. We also recommended the Acting Assistant Secretary for Employment and Training recover questioned costs of \$8 million or obtain appropriate support, develop a policy for recapture and reallocation of excess carryover funds for INAP grants, and ensure appropriate follow-up is performed to resolve findings and corrective actions after on-site monitoring reviews.

### **ETA's RESPONSE**

In response to the draft report, ETA concurred with all recommendations with the exception of OIG's recommendation that ETA require NDWD train staff on accurate data reporting, and participant follow-up procedures. Based on quarterly program reports, ETA determined that NDWD's outcome data is accurate. Furthermore, due to limited staffing and resources, ETA contended that tracking participants after exit often presents a challenge to grantees. Regarding the recommendation that ETA require NDWD to implement accounting policies and procedures for allocating personnel and non-personnel costs, ETA will assess if the findings are correct and verify that NDWD finalizes and implements its NNOOC policy manual. ETA's response is included in its entirety as Appendix D.

### **NDWD'S RESPONSE**

In response to the draft report, NDWD stated that it will coordinate with Navajo Nation's Office of the Controller (NNOOC) for accounting policy related to the allocation of personnel costs and issues related to the majority of the report's questioned non-personnel costs. NDWD did not agree that it had improperly classified \$224,277 of information technology costs as capital equipment that required ETA approval. Regarding carryover funds, NDWD stated that it has communicated with DINAP the need to expedite WIA funding and will consult with the Federal Projects Officer on this reoccurring problem. Finally, NDWD stated it can address the participant follow-up



requirements and has already addressed the data reliability issue when it centralized all NDWD program records and data-entry in January 2011. NDWD's response, exclusive of the response exhibits, is included in its entirety as Appendix E. The complete response, including the exhibits, has been transmitted to ETA.

### **OIG's Conclusion**

We recognize that tracking participants after exit often presents a challenge to grantees. However, we maintain that participant follow-up is needed to ensure participants receive help to be more competitive in the workforce. Furthermore, we continue to question the accuracy of data reported by NDWD regarding program services and outcomes data. Without accurate data program services and outcomes, NDWD risked making program decisions based on inaccurate data. Regarding the classification of information technology costs, NDWD's response to the draft report included support for costs incurred after our audit period.

## **RESULTS AND FINDINGS**

### **Objective — Did NDWD properly expend grant funds and achieve program targets in accordance with federal and grant requirements?**

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*NDWD did not properly manage \$16.5 million in grant funds, and did not always accurately report participant activities or meet targets. Moreover, additional participants could have been served with available funds.*

NDWD did not properly allocate and expend \$8 million of grant funds, and did not use at least another \$8.5 million of grant funds to effectively serve its participants. We also found that NDWD did not always accurately report participant activities, did not meet grants goals for serving adult participants and youth high school dropouts, and fell short in improving academic skills. NDWD did not fully comply with federal regulations and grant agreements because it did not have adequate financial and performance management systems for managing INAP grants. Furthermore, DINAP was aware of many of the issues cited in this report but had not ensured actions were taken to address these problems.

### **Finding 1 — NDWD did not properly manage \$8 million in INAP grant funds**

NDWD did not properly allocate and expend \$8 million of grant funds consisting of approximately \$6.7 million of personnel and \$1.3 million of non-personnel costs (see the Exhibit to this report for a Schedule of Questioned Costs by Grant). This was due to inadequate controls and failure to implement an accounting manual that followed federal requirements. NDWD could not show that personnel costs totaling \$6.7 million were based on the number of active quarterly participants recorded in BearTracks<sup>1</sup> and reported to ETA; as NDWD officials claimed. Moreover, personnel activity reports or an

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<sup>1</sup> BearTracks is a Management Information System ETA developed to manage and report participant information.

approved substitute system to allocate personnel costs to various funding sources or cost categories were not used. Additionally, we questioned non-personnel costs totaling \$1.3 million due to other unallowable expenditures that included unsupported transfers, unapproved capital improvements, unallocable costs, and applicable indirect costs.

**A. NDWD did not have adequate controls in place to properly allocate personnel costs of \$6,676,572.**

NDWD reported personnel costs of \$6,676,572 (\$4,747,108 of salaries and \$1,929,464 of fringe benefits) to WIA grant programs. NDWD administered two federal programs – (1) INAP funded by DOL; and (2) Native Employment Works (NEW), funded by the Department of Health and Human Services (HHS). NDWD officials stated that they allocated personnel costs based on the number of participants served. However, we found that personnel costs were not allocated to cost categories based on the quarterly number of participants recorded in BearTracks and reported to ETA. Moreover, personnel activity reports or an approved substitute system,<sup>2</sup> were not used to allocate personnel costs to various federal funding sources or cost categories as required by OMB. Based on NDWD’s unapproved allocation method, we questioned personnel costs of \$6,676,572 allocated to WIA programs as the costs incurred did not accurately reflect actual work employees performed.

OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments Attachment B (8) (h) (OMB A-87) states:

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation...unless a statistical sampling system...or other substitute system has been approved by the cognizant Federal agency... (5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee...

Table 1 shows a summary of questioned personnel costs:

<b>Table 1: Summary of Questioned Personnel Costs</b>	
<b>Description</b>	<b>Questioned Costs</b>
Improperly charged NEW personnel costs to WIA grants	\$395,685
Administrative personnel costs improperly charged to training	775,729
Personnel costs improperly charged to a single cost category	1,840,433
Approved method of allocating personnel costs was not used	3,664,725
<b>TOTAL</b>	<b>6,676,572</b>

<sup>2</sup> The U.S. Department of Interior, the Federal cognizant agency, had not approved NDWD’s method at the time of our fieldwork.

**NDWD improperly charged NEW program personnel costs to WIA grants.**

NDWD used \$395,685 of WIA funds to pay personnel costs of staff working on the NEW program. Based on the number of active quarterly participants in each of NDWD's programs,<sup>3</sup> we calculated the NEW program's share of personnel costs was approximately 10.25 percent of total personnel or \$735,336.<sup>4</sup> However, NDWD only allocated \$494,669 (6.9 percent) to the NEW program. Therefore, we questioned the difference of \$240,667 (\$172,649 salaries and \$68,018 fringe benefits). Furthermore, OIG interviews and review of personnel files showed that two employees were primarily responsible for the NEW program, but NDWD allocated \$155,018 (\$107,602 salaries and \$47,416 fringe benefits) for their personnel costs to WIA grants.

**NDWD improperly charged administrative personnel costs to training.**

NDWD allocated administrative personnel costs of \$775,729 to training support and direct training even though a significant portion of the employees' duties involved administrative activities.<sup>5</sup> The employees included: accounts maintenance specialists who maintained timesheets, checked for accuracy of timekeeping, processed travel, and made office purchases; and program supervisors who recruited and hired employees, managed personnel, and administered budgets. 20 CFR 667.220 (b) states:

The costs of administration are the costs associated with performing the following functions: (1) Performing the following overall general administrative functions and coordination of those functions under WIA title I: (i) Accounting, budgeting, financial and cash management functions; (ii) Procurement and purchasing functions;... (iv) Personnel management functions; (v) Payroll functions...

**NDWD improperly charged personnel costs to a single cost category.**

NDWD allocated personnel costs totaling of \$1,840,433 to a single cost category, either administrative or training support services, even though employees duties involved work applicable to both cost categories. The employees worked in the following positions: office specialist; statistical technician; senior management analyst; office assistant; case assistant; contract analyst; senior accountant; and maintenance technician.

**NDWD did not use an approved method of allocating personnel costs.**

NDWD charged \$3,664,725 of personnel costs for the positions of employment assistance officer, GIS counselor, senior property clerk, office aide, and senior

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<sup>3</sup> The audit covered PYs 2010 and 2011 which included July 1, 2010, to June 30, 2012, for the adult program, and April 1, 2010, to March 31, 2012, for the youth program. The NEW program started July 1, 2010.

<sup>4</sup> Total personnel costs for the audit period was \$7,171,241 consisting of personnel costs allocated by NDWD to WIA of \$6,676,572 and NEW of \$494,669.

<sup>5</sup> The grant imposes a 20 percent administrative cost limit. ETA will need to determine if this limit has been exceeded when the grant is ultimately closed.

accountant to either the training support or administrative category. However, the allocations of the costs were not based on either personnel activity reports, an approved substitute allocation system, or NDWD’s stated allocation method. As a result, the amounts allocated to NEW, and WIA Adult and Youth programs, could not be validated.

**B. NDWD did not have controls in place to properly allocate and charge non- personnel costs of \$1,295,986.**

NDWD improperly allocated non-personnel costs between the WIA and NEW programs. Additionally, NDWD did not provide supporting documentation for certain financial transactions, classified capital improvement costs as common expenditures, and paid prior period expenses in the current grant period, including late fees. This occurred because NDWD did not have adequate controls in place to properly allocate costs, and has not implemented its accounting manual.

In addition, we questioned indirect costs applicable to improper personnel and non- personnel costs. A summary of questioned non-personnel costs is shown in Table 2.

<b>Expenditure</b>	<b>Questioned Costs</b>
Unsupported Adjusting Journal Entries	380,722
Capital Improvements	224,277
NEW Program Expenditures	127,627
Prior Period Expenses and Late Fees Paid	23,661
Indirect Costs Applicable to Questioned Cost	539,699
<b>TOTAL</b>	<b>1,295,986</b>

**NDWD did not provide sufficient support for adjusting journal entries totaling \$380,722.**

NDWD did not provide sufficient support for 6 transactions related to journal entries totaling \$380,722. These entries averaged \$63,454 and were as high as \$149,652. OMB Circular A-87, Attachment A, Section (A)(C)(1)(j), requires that to be allowable under federal awards, costs must be adequately documented.

NDWD could not explain how it calculated the journal entry amounts, the grant entries they related to, or the nature of the expenditures. The Navajo Nation Office of the Comptroller (NNOOC) Policy Manual required financial staff to process and enter all journal entries equal to or more than \$50,000, into the Financial Management Information Systems using specific guidelines. These guidelines included a requirement that supporting documentation be attached to substantiate the journal entries, along with signatures from approving officials including the Department Manager. However, according to a NDWD official, the NNOOC Policy Manual was only a draft and never implemented or approved.

**NDWD did not obtain ETA approval for capital improvements of \$224,277.**

NDWD made numerous capital improvement acquisitions for the development of a web-based document tracking system and computer equipment, which substantially increased the value and useful life of the information technology infrastructure. However, NDWD did not obtain ETA approval prior to making these purchases. NDWD did not classify these items as capital improvements which required prior authorization from ETA. As a result, we questioned costs of \$224,277. OMB A-87, Attachment B, subsection (15)a.(1) states:

Capital Expenditures” means expenditures for the acquisition cost of capital assets (equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life.... b. The following rules of allowability shall apply to equipment and other capital expenditures: (1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

**NDWD improperly charged NEW program expenditures of \$127,627 to WIA.**

NDWD did not have an adequate system to allocate shared costs between WIA and NEW programs. As a result, we questioned costs of \$127,627 related to the NEW program. OMB Circular A-87, Attachment A, Section (C)(3)(a), states:

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such costs objective in accordance with relative benefits received.

NDWD did not allocate costs that involved both NEW and WIA programs. These allocation issues included costs such as: travel, utilities, supplies, and technology which benefitted both the WIA and NEW programs. Therefore, we questioned 10.25 percent<sup>6</sup> of all administrative costs, travel, and technology contracts (not previously questioned) of \$957,317, or \$98,125, plus actual travel expenditures incurred by NEW program personal charged to WIA of \$11,765, and \$17,737 for a computer training contract shared by both programs, for a total of \$127,627.

**NDWD improperly used PYs 2010 and 2011 funds to pay prior period expenses and associated late fees of \$23,661.**

WIA grant funds were used to pay internet services and associated late costs that were incurred in Calendar Year 2006 and 2007. According to NDWD management internet invoices were sent to an area office, and as a result, management was not aware of the expense. However, the draft NNOOC Policy Manual does not include practices for identifying unallowable costs or appropriately reference OMB Circular A-87, and NDWD

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<sup>6</sup> The 10.25 percent was based on the number of active quarterly participants in the NEW program.

management review of invoices did not capture and properly exclude late charges. As a result, we questioned costs of \$23,661. OMB Circular A-87, Attachment A, Section C.3.a states, “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

**Questioned indirect costs applicable to personnel and non-personnel costs totaled \$539,699.**

Indirect costs are costs incurred for a common purpose benefiting more than one cost objective, and not readily assignable to final cost objectives. We questioned indirect costs of \$539,699 which resulted from the application of the 7.99 percent<sup>7</sup> to base questioned cost of \$6,754,680.<sup>8</sup>

**Finding 2 — Despite excess carryover funds of \$8.5 million, prospective participants are waiting for employment and training services.**

NDWD did not use available grant funds to effectively serve its participants. NDWD’s practice of not using available funds to serve participants has been persistent. As of PY ending 2011, carryover funds were approximately equivalent to one year’s worth of WIA funding at \$13.4 million. Despite these unused funds, NDWD only served 62 percent of the planned number of adults, had waiting lists of prospective participants, and had policies that limited re-enrollment for participants that may have needed additional services. Moreover, ETA contributed to NDWD’s excess carryover by not using its authority to reallocate excess funds to other grantees. As a result, of \$13.4 million in unspent grant funds, NDWD exceeded the maximum allowable carryover limit by \$8.5 million.

20 CFR 668.296(d) states ETA may reallocate unspent funds in excess of 20 percent of the total funds available from one INAP grantee to another. Grantees may carry in amounts greater than 20 percent, but less than 25 percent of total funds available if DINAP approves and issues a waiver to them. Furthermore, ETA issued guidance as early as April 2008, stating that given the employment and training needs among Native Americans, it expected unspent funds to be minimal at the end of the PY 2007. Additionally, ETA informed INAP grantees it would recapture those carryover funds in excess of the 20 percent limit and re-distribute them to grantees under the carryover limit.

**NDWD has consistently exceeded its carryover limit since PY 2008.**

NDWD’s practice of not using available funds to serve participants has been persistent. From PYs 2008 through 2011, carryover funds have been as high as \$14.3 million,

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<sup>7</sup> NDWD charged indirect costs averaging 7.99 percent applied to total direct cost less capital expenditures and pass-through funds of \$9,142,003 for PYs 2010 and 2011.

<sup>8</sup> Base questioned costs of \$6,754,680 are total questioned cost of \$7,432,674 less capital expenditures and pass-through funds of \$677,994.

while excess grant funds were between \$7.1 million and \$9.3 million annually. Carryover funds, as of PY ending 2011, were approximately equivalent to one year’s worth of WIA funding at \$13.4 million. The regulations allow a maximum of 20 percent, or \$4.9 million, to be carried over into the following year, but NDWD exceeded that limit by \$8.5 million. Table 3 shows NDWD’s carryover since PY 2008.

**Table 3: Four Year Carry-Over Summary<sup>9</sup>**

PY	Beginning Carry Over Balance [A]	New WIA Funding [B]	Expenditures [C]	Total Funds [A]+[B]=[D]	Carry Over [D]-[C]=[E]	20 percent allowable [D*20%]=[F]	Excess Carryover [E]-[F]=[G]
2008	N/A	\$12,400,757	\$629,805	\$12,400,757	11,770,952	2,480,151	9,290,801
2009	11,770,952	19,106,010	16,528,466	30,876,962	14,348,496	6,175,392	8,173,104
2010	14,348,496	12,198,626	14,180,314	26,547,122	12,366,808	5,309,424	7,057,384
2011	12,366,808	12,091,324	11,021,388	24,458,132	13,436,744	4,891,626	8,545,118
<b>AVERAGES</b>	<b>12,828,752</b>	<b>\$13,949,179</b>	<b>\$10,589,993</b>	<b>\$23,570,743</b>	<b>\$12,980,750</b>	<b>\$4,714,149</b>	<b>\$8,266,601</b>

While NDWD officials stated the main cause of carryover was ETA’s delays in making funds available, we concluded this only had minimal impact. NDWD has consistently exceeded its carryover limit since PY ending 2008. We found ETA made funds available an average of 2.8 months after the grant award date. However, NDWD spent the funds an average of 15.3 months after the end of the year in which they were awarded.

**Prospective participants were waiting for employment and training services.**

Despite these excess funds for PYs 2010 and 2011, NDWD only served 2,293 of the 3,700 (62 percent) planned number of adults, had waiting lists of prospective participants, and had policies that limited re-enrollment for participants that may have needed additional services. NDWD policy prohibited participants from re-enrolling into the Adult or Youth program if they had been awarded a training certificate, diploma, or degree. In most cases, this policy prevented participants from re-enrolling into the program even if they may have benefited from additional services.

NDWD had five local workforce centers to serve area residents; we visited two, Shiprock and Fort Defiance. NDWD limited these centers on the number of participants they could serve. Each center’s budget specified the number of adult and youth participants they could have served under work experience (WEX), classroom training, and supportive services. Moreover, these centers had eligible applicants waiting for services and some that had not submitted all documentation for eligibility. According to staff in Shiprock, there were approximately 200 to 300 applicants waiting for services. In Fort Defiance, each Employment Assistance Officer (EAO) maintained his or her waiting list. From our interviews with two EAOs, one had 66 participants and another had 100 participants on the waiting list.

<sup>9</sup> Amounts represented are applicable only to grants AB171750855A and AB216091155A. Since this was the inception year of the grant there is no carryover beginning balance.

**ETA has yet to develop a policy to recapture and reallocate excess carryover funds.**

We also observed that the large amount of carryover funds was not unique to NDWD. ETA awarded funds to 125 other Native American grantees. In PY 2011, approximately one-third of these grantees carried over a total of \$2.7 million more than WIA regulations allow. ETA was aware of the large amount of unspent funds remaining at the end of each program year. However, ETA had not reallocated these funds; instead ETA asked grantees to voluntarily return unspent funds which only happened once.

**Finding 3 — NDWD did not achieve some performance goals and provided minimal follow-up after participants left the program.**

NDWD reported serving only 62 percent of its planned number of adults, did not meet grants goals for serving high school dropouts in the youth program, and fell short in improving academic skills of this group. Moreover, NDWD did not accurately report participant activities. This was because NDWD limited enrollment, did not properly enter and verify information in BearTracks, and did not always adhere to its policy requiring follow-up with exiters to determine if they entered employment or needed additional services. As a result, NDWD officials did not have accurate data on program services and outcomes, and risked making program decisions based on that inaccurate data.

NDWD designed its program to provide work experience, occupational skills training, and academic remediation to prepare participants for careers in sectors with high demand job opportunities. NDWD training services consisted of WEX, occupational skills (classroom training), and basic skills to both adult and youth participants. Of the 123 sampled adult and youth participants, 118 participants or 96 percent had WEX or classroom training in one of the demand sectors - goods and services, hospitality, health care, government services, aging and long term elder care, gaming, green jobs, food service, and construction. Because the Navajo Nation is the largest employer on the Reservation, a majority of WEX and post-exit job placements were in government services. Participants worked in positions such as office aide and assistant, custodian assistant, maintenance helper, automotive industry expert, and kitchen aide.

**NDWD did not achieve adult enrollment goals but evidence suggests it exceeded employment goals.**

NDWD did not meet its enrollment goals in the adult program, but evidence supported that it exceeded its employment goals even though employment results were not accurately reported to ETA, and retention goals in the grant were not correct.

In PYs 2010 and 2011, NDWD planned to serve 3,700 adult participants (1,850 each year), but reported serving only 2,293. As discussed earlier in Finding 2, NDWD had excess funds available to serve more adult participants, but did not. Rather, NDWD management limited the number of training slots for each local workforce center, resulting in waiting lists of eligible applicants.



NDWD’s planned entered employment rate was 32 percent for both years based on an estimated 225 participants per year entering employment. NDWD’s proposed retention rate was 50 percent for both years based on 350 participants that enter employment and retain their jobs for at least 6 months.<sup>10</sup> NDWD’s recorded employment data in BearTracks and reported to ETA 152 participants (15 percent of the 987 exiters) in PY 2010 and 141 participants (19 percent of 751 exiters) in PY 2011 entered employment.

However, evidence existed supporting that employment statistics were underreported. We performed a statistical sample and estimated that the entered employment may have been understated by at least 177 participants per year.<sup>11</sup> Furthermore, ETA stated that NDWD’s entered employment was as high as 479 participants for PY 2010 and 374 participants for PY 2011; and that 55 percent of those that entered employment retained their jobs for at least 6 months at an annual income of \$20,164 for PY 2010 and \$19,102 for PY 2011. ETA calculated employment rates using the Kansas Department of Commerce’s Common Reporting Information System (CRIS). CRIS calculates these rates based on information from state Unemployment Insurance (UI) wage data, the Federal Employment Data Exchange System, and supplemental grantee data. However, this data did not contain detail that would enable OIG to verify. While ETA guidance states it will calculate employment performance measures on behalf of grantees, it requires grantees to submit performance outcomes for data they collect. See Table 4 for a summary of NDWD’s planned vs. actual goals for PYs 2010 and 2011.

**Table 4: Planned and Actual Goals for Adult Program**

Goal	PY 2010			PY 2011		
	Planned	ETA (Reported)	CRIS	Planned	ETA (Reported)	CRIS
Served <sup>12</sup>	1,850	1,249	-	1,850	1,044	-
Exiters	700	987	1,041	700	751	815
Entered Employment Rate	32%	15%	46%	32%	19%	46%
No. Entered Employment	225	152	479	225	141	374
Retention Rate <sup>13</sup>	50%	43%	51%	50%	56%	58%
No. Retained <sup>14</sup>	350	65	240	350	79	280
Average Annual Earnings	20,000	17,650	20,164	20,000	20,294	19,102

<sup>10</sup> The proposed 350 participants that retained employment is an error since the number of participants retained cannot exceed the proposed number of participants that entered employment (225) as shown in Table 4.

<sup>11</sup> A statistical sample showed that the reported entered employment may be understated by at least 177 participants per year with a confidence level of 90 percent.

<sup>12</sup> The planned number of participants served of 3,700 (1,850 per year) included 600 participants carried over from the previous program year. Therefore, the planned number of individuals served was 3,100 and the actual individuals served were 1,916.

<sup>13</sup> Employment retention rate is based on participants who have been out of the program for at least nine months. ETA guidance states that a person counts as “retained employment” if they are working the first quarter after the exit quarter and still working in the second and third quarter after exit. As a result, ETA uses different groups to calculate the entered employment and retention rates.

<sup>14</sup> According to ETA, the proposed numbers are incorrect because the number of employees that retain employment exceeded the number of participants to enter employment.

**NDWD did not achieve some youth program performance goals.**

NDWD met its overall enrollment goals for serving total number of youth participants, but in PY 2011, served approximately half of its planned high school dropouts. Additionally, in PY 2011, NDWD failed to meet its educational attainment for its dropout goal.

For the Youth program, NDWD’s planned enrollment was 2,250 (1,150 for PY2010 and 1,100 for PY 2011), and it actually enrolled 2,276. However, in PY 2011, NDWD planned to serve 150 high school dropouts, but reported it enrolled only 76. NDWD did not explain why they failed to meet this target. Table 5 shows proposed and actual goals for the youth program.

**Table 5: Proposed and Actual Goals for Youth Program**

Goal	PY 2010		PY 2011	
	Proposed	Reported to ETA	Proposed	Reported to ETA
Served*	1,150	1,122	1,100	1,154
Exiters	-	770	900	846
Youth Dropouts	-	123	150	76
Attainment of 2 or more goals**	805	637	5	5
Dropout education attainment rate	-	15%	50%	21%
No. Dropout education attainment	-	19	75	16

\* Does not include 331 participants served under the American Recovery and Reinvestment Act of 2009, since they were reported separately.  
 \*\* Prior to PY 2011, this goal is for number of participants served that attained 2 or more goals; however, for PY 2011, the goals refers to grantee attaining at least a 60 percent level on two or more of its grant goals. These goals were in areas such as: obtain GED, remain in school, and improve basic skills by two grade levels.  
 -Not a component of grant for PY 2010

**Data for adult and youth programs may not be sufficiently reliable.**

We attempted to verify a statistical sample of 61 adult and 62 youth participant records with data recorded in BearTracks and reported to ETA, and concluded that reported data was not sufficiently reliable. In addition to the employment differences previously noted for the adult program, there were errors ranging up to 39 percent for the various services and training provided to participants. For example, there were 33 errors regarding adult training received: basic skills (8), remedial (6), WEX (3), occupational skills (2), and other training (14). Of the 33 errors, 12 were because there was no evidence that training was provided, and for 21 participants there was evidence that training was provided, but it was not recorded in BearTracks and reported to ETA.

As a result, NDWD officials did not have accurate data on program services and outcomes, and risked making program decisions based on inaccurate data. See Tables 6 and 7 for a summary of errors.

**Table 6: Errors in Sample Testing – Adult Program**

<b>Attribute</b>	<b>Sample Size</b>	<b>Total Errors</b>	<b>Error Rate</b>
Core Services	61	24	39%
Other Training	61	14	23%
Basic Skills Training	61	8	13%
Remedial Training	61	6	10%
Intensive Services	61	4	7%
Work Experience Training	61	3	5%
Occupational Skills Training	61	2	3%

**Table 7: Errors in Sample Testing - Youth Program**

<b>Attribute</b>	<b>Sample Size</b>	<b>Total Errors</b>	<b>Error Rate</b>
Completed Occupational Skills Training	62	7	11%
Successful Completion of Summer Employment	62	6	10%
Completed Leadership Skills Training	62	5	8%
Completed Work Readiness	62	3	5%
Entered Other (Non-Supplemental Youth) Training	62	2	3%
Completed Career Assessment	62	2	3%
Completed Internship/Vocational Exploration Program	62	1	2%
Entered Unsubsidized Unemployment (include Military)	62	1	2%
Returned to School Full Time	62	1	2%

**NDWD did not always follow-up with participants after program completion.**

Program staff did not always adhere to NDWD policy requiring follow-up with exiters to determine if they entered employment or needed additional services. NDWD policy states the purpose of doing follow-up with adults is to help them, “be successful in employment, job retention, wage gains and career progress,” and the purpose for youth follow-up is to help them obtain advanced training, education or a better paying job.

In the adult program, NDWD staff followed up with just 475 of 1,738 reported exiters (27 percent) in PYs 2010 and 2011. BearTracks recorded that for 61 sampled adult participants, NDWD program staff contacted 13 or 21 percent in the first quarter after the exit. However, even when staff did follow up, participants did not always receive post-exit services as needed. For nine sampled adults that received follow-up and were unemployed, case notes did not show that NDWD staff offered any job search or related services.

In the Youth program, follow-up services were not tracked because the BearTracks Youth Database had no field for follow-up services. As a result, NDWD had no way of

tracking whether high school dropouts obtained a GED or high school diploma after the program; one of the performance outcomes.

Program staff at two local NDWD workforce centers stated they faced challenges in conducting follow-up. They cited disconnected phones, lack of transportation, and a heavy workload as reasons they did not always follow up with exiters. For youth, some staff were not aware of NDWD's policy to perform follow-up and stated, "It is really impossible to do youth follow-up for a year, and there are questions about what useful purpose it serves."

**Finding 4 — ETA did not follow its monitoring procedures to review and address corrective action items.**

DINAP was aware of many issues cited in this report, but did not follow up to ensure NDWD resolved the findings. In December 2011, DINAP issued a monitoring report to NDWD on its INAP grants. In the report, DINAP cited issues similar to findings in this audit report regarding personnel, carryover funds, performance reporting, and participant follow-up. However, DINAP did not follow up on its recommendations and its policy to review and address corrective action items. According to a DINAP official, at the end of August 2012, the grant was transferred to a new Federal Project Officer (FPO) who was working on resolution at the time of our fieldwork. DINAP officials also cited limited resources for travel as a reason that the Division could not do more on-site monitoring.

The monitoring report was based on an analysis of NDWD's reported program performance outcomes from June 2009 to September 2011, and information from two on-site reviews. In the monitoring report, DINAP issued a finding that NDWD had a significant amount of funds unspent at the end of each program year that could have been used for the benefit of eligible individuals on the Reservation, particularly in light of current negative economic conditions. DINAP required NDWD to submit a comprehensive corrective action plan with detailed tasks it would take to obligate 80 percent of funds by the end of the program year.

DINAP's monitoring report separately presented "observations" and "recommendations" that NDWD should take to address other issues. They included the following three issues identified in this audit report:

- NDWD's method of allocating personnel cost based on participants served was neither adequate nor approved by the Department of Labor, and the fallibility of the method was further supported by the fact that BearTracks participant information was not always correct. The report recommended that the NDWD implement cost allocation based on time distribution of actual job function of all staff with periodic review to modify any changes to staff functions.

- NDWD needed to improve performance reporting and accountability. DINAP recommended that NDWD consider the evaluation of actual performance against planned goals and measures, and participant file documentation regarding services provided.
- There was no participant follow-up at one of the local centers. DINAP stated that follow-up is key to documenting performance outcomes for the three common measures: Entered Employment, Job Retention and Average Earnings. The report recommended NDWD ensure required follow-up of participants after exit.

In its transmittal letter for the December 2011 monitoring report, DINAP directed NDWD to send a written response within 45 days to address the required corrective action items for the finding on unspent funds. NDWD did not respond until August 2012 (8 months after DINAP issued the report) and only addressed the findings and related corrective action. NDWD acknowledged the report's observations and recommendations, as presented by DINAP's review team. At the time of our fieldwork, DINAP officials acknowledged that they had not taken action on NDWD's written response. They explained that the FPO that wrote the monitoring report had retired and the grant was transferred to another FPO, who was not part of the review team. However, the current FPO was working on a response.

## **RECOMMENDATIONS**

We recommend the Acting Assistant Secretary for Employment and Training require NDWD to:

1. Implement accounting policies and procedures to properly allocate personnel and non-personnel costs. Furthermore, the NNOOC Policy Manual should be implemented and include practices for identifying unallowable costs.
2. Conduct training with staff on accurate data reporting, and participant follow-up procedures.

We also recommend the Acting Assistant Secretary for Employment and Training:

3. Recover questioned costs of \$8 million, or obtain appropriate support.
4. Develop a policy for recapture and reallocation of excess carryover funds for INAP grants.
  - For NDWD, ensure that all NDWD's carryover funds are either better used to serve participants or recouped and redistributed. This can be accomplished by providing technical assistance to NDWD to serve additional eligible participants as appropriate or by recouping \$8.5 million of excess carryover funds to be put to better use by other INAP grantees.

- For other INAP grantees, evaluate the \$2.7 million in excess carryover funds and recover funds, as appropriate. In doing so, ETA should try to reallocate or re-obligate funds before the period of availability expires so funds could be better used to assist tribes that are in need. If not, funds should be returned to the Treasury.
5. Ensure appropriate follow-up is performed to resolve findings and corrective actions after on-site monitoring reviews.

We appreciate the cooperation and courtesy that NDWD and ETA personnel extended to the Office of Inspector General during this audit. OIG personnel who made major contributions to this report are listed in Appendix F.



Elliot Lewis  
Assistant Inspector  
General for Audit

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## Exhibit

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**Exhibit**

**Questioned Costs by Grants**

<b>Audit of NDWD Schedule of Questioned Costs By Grants and Findings PYs 2010 and 2011</b>						
FINDING		AB-17175-08-55-A-4 (PY 10)		AB-21609-11-55-A- 4 (PY 11)		Total
		Adult	Youth	Adult	Youth	
1(A)	PERSONNEL	\$2,866,266	\$3,020,660	\$416,716	\$372,930	\$6,676,572
1(B)	INDIRECT COSTS	110,861	428,838			539,699
1(B)	UNSUPPORTED TRANSFERS	76,996	303,726			380,722
1(B)	CAPITAL IMPROVEMENT	194,277	30,000			224,277
1(B)	NEW PROGRAM ALLOCATION	84,651	31,769	2,339	8,868	127,627
1(B)	PRIOR PERIOD EXPENSES & LATE FEES	23,661				23,661
Questioned		\$3,356,712	\$3,814,993	\$419,055	\$419,055	\$7,972,558
<b>Total Questioned</b>						<b>\$7,972,558</b>

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# Appendices

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## Appendix A

### Background

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Section 166 of the Workforce Investment Act (WIA) of 1998 (PL 105-220) authorizes Congress to provide funds for the Indian and Native American Program (INAP). INAP- funded grants serve the workforce development needs of Indian and Native American youth and adults. Eligible recipients are Indian tribes, tribal organizations, Alaska Native entities, and Indian-controlled organizations serving Indians or Native Hawaiians. WIA Section 166 requires grantees to submit two year plans that describe the strategy for meeting the needs of Native American Communities. The plan should identify the education and employment needs of the population to be served, describe the services and activities to be provided, and detail how those activities will improve a participant's ability to obtain or retain employment. The purpose of INAP grants is to:

- Fully develop academic, occupational, and literacy skills of eligible participants;
- Make participants more competitive in the workforce; and
- Promote economic and social development of Indian, Alaska Native, and Native Hawaiian communities in accordance with those communities' values and goals.

The Navajo Nation received the largest INAP grant awards – \$12.2 million and \$12.1 million for PYs 2010 and 2011, respectively. The Navajo Nation is the largest reservation in the United States, with more than 300,000 members in 2011, covering an area that includes parts of Arizona, Colorado, New Mexico, and Utah. The Navajo Department of Workforce Development (NDWD) administers INAP grants awarded to the Nation. For Program Years (PY) 2010 and 2011, the Navajo Nation, the largest INAP grant recipient, received \$24.3 million consisting of \$17.5 million WIA Section 166 funds, and \$6.8 million WIA funds provided by Utah, New Mexico, and Arizona. During this period, NDWD also operated the U.S. Department of Health and Human Services' (HHS) Native American Employment Works (NEW) Program, funded from \$3.5 million in grants from HHS. The NEW program helps eligible participants on public assistance obtain training and employment.

The headquarters of NDWD is located in Window Rock, Arizona and oversees five Workforce Centers located throughout Arizona, Colorado, New Mexico, and Utah. During PYs 2010 and 2011, NDWD spent \$25.2 million serving 1,916 individual adult and 2,607 youth participants.

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## Appendix B

### Objective, Scope, Methodology, and Criteria

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#### Objective

Did NDWD properly expend grant funds and achieve program targets in accordance with federal and grant requirements?

#### Scope

The audit scope covered Program Years (PY) 2010 and 2011 Workforce Investment Act (WIA) grants awarded to the Navajo Nation. PYs 2010 and 2011 cover the periods July 1, 2010, to June 30, 2012, for the adult program, and April 1, 2010, to March 31, 2012, for the youth program. Total available funds during the audit period were \$38.6 million (\$7 million in American Recovery and Reinvestment Act of 2009 funds). Our audit included expenditures of \$25.2 million and 4,523 individuals served.

We considered the internal control elements of control environment, risk assessment, control activities, information and communication, and monitoring during our planning and substantive audit phases.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

#### Methodology

WIA grants were reviewed to determine types of training, services, and outcomes. We reviewed quarterly financial reports to determine reported costs, reconciled costs to grantee's general ledger, and reviewed supporting documentation. To evaluate performance, we reviewed quarterly performance reports submitted to ETA to determine services, training, and programs' outcomes. We performed fieldwork at ETA headquarters in Washington, DC, at NDWD administrative headquarters in Window Rock, AZ, at two local workforce centers (Shiprock and Fort Defiance), and at the Navajo Nation Office of the Comptroller.

We performed a data reliability assessment to ensure we had complete and accurate grants expenditure and performance data. We reconciled grantee's general ledger (G/L) and performance database to the following ETA quarterly reports: Form 9130 (Financial); Form 9084 (Adult Performance); and Form 9085 (Youth Performance). To determine whether the financial data was reliable for sampling, we compared the total financial expenditures reported to ETA to financial expenditures per grantee's general ledger. We found a minor difference of less than .01 percent of total expenditures reported to ETA. The performance data reliability assessment was conducted by



comparing performance data reported to ETA to the items recorded in the grantee's copy of the INAP's official system of record; the BearTracks database. From the grantees extract of BearTracks data received in January 2013, we reconciled it to ETA Form 9085 performance reports for the Youth program as of March 31, 2012, and ETA Form 9084 performance reports for the Adult program, as of June 30, 2012. We noted differences of approximately one percent, which was determined to be immaterial. Therefore, we concluded that the data provided to us was sufficiently complete for sampling purposes. However, we noted significant differences from a statistical sample of 61 adult and 62 youth participant records with data recorded in BearTracks and reported to ETA, and concluded that the data may not be sufficiently reliable for reporting purposes (see Finding 3).

In planning and performing our audit, we considered whether internal controls significant to the audit were properly designed and placed in operation. This included review of NDWD policies related to WIA Adult and Youth programs. We confirmed our understanding of these controls and procedures through interviews with ETA National and Regional Office officials, grantee officials and staff, and review of participant files. Our consideration of these internal controls would not necessarily disclose all matters that might be significant deficiencies. Because of inherent limitations in internal controls, misstatements or noncompliance may nevertheless occur and not be detected.

To gain an understanding of the financial process used by NDWD to manage WIA grants received from ETA, we statistically selected a sample of 86 transactions totaling \$1.2 million. As part of the sampling process we stratified financial transaction in the universe into 10 strata, based on dollar amount of transaction, and statistically selected a sample, using a 95 percent confidence level and +/-5 percent sampling precision as follows.

Strata No.	Strata	Strata Size (Transactions)	Number of Transactions Sampled	Sampled Amount
1	\$80,000+	4	4	\$467,012.00
2	\$30,000 to \$80,000	11	11	460,146.62
3	\$15,000 to \$30,000	38	6	106,707.42
4	\$10,000 to \$15,000	61	3	36,600.00
5	\$5,000 to \$10,000	143	8	64,902.75
6	\$2,000 to \$5,000	701	18	51,206.88
7	\$1,000 to \$2,000	1,036	11	16,300.32
8	\$500 to \$1,000	1,043	5	3,551.12
9	\$100 to \$500	5,090	18	4,334.15
10	\$50 to \$100	1,685	2	111.07
		9,812	86	\$1,210,873

In addition, we judgmentally selected 209 transactions totaling \$466,176 based on specific risk factors such as; number of information technology transactions, employee travel and purchase card transactions. In total, we selected and tested 295 non-personnel transactions of \$1,677,049, and personnel transactions of

\$3,011,847 from NDWD's total claimed expenditures of \$25,202,460. Based on the results of our testing, we did not project on our audit findings.

To gain an understanding of the training, services, and outcomes in the WIA Adult and Youth programs, we statistically selected and reviewed files for 61 of 1,916, and 62 of 2,607 individual participants from the adult and youth programs, respectively. We requested unemployment insurance and wage record data from Arizona, Colorado, New Mexico, and Utah to verify employment outcomes. Individuals were selected statistically using a risk assessment that included NDWD's various performance attributes. The results of the risk analysis were used to identify 12 performance attributes for the Adult program and 18 attributes for the Youth program. Both sampled universes were tested using a 90 percent confidence level and +/- 10 percent sampling precision. Based on our sample design, the errors may be projected to each attribute in the audit universe.

### **Criteria**

We used the following criteria to accomplish our audit:

- Workforce Investment Act of 1998 – Section 166 - Native American Programs
- OMB Circular A-87 - Cost Principles for State, Local, And Indian Tribal Governments
- 20 CFR 667- Administrative Provisions under Title I Of The Workforce Investment Act
- Navajo Nation's Indirect Cost Negotiation Agreement, dated May 18, 2012
- 29 CFR Subtitle A Part 97 Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments
- 20 CFR 668 Indian And Native American Programs Under Title I Of The Workforce Investment Act
- NDWD Policy No. 06-08, Amendment 1 on Occupational Skills Training and Basic Education
- NDWD's One-Year Strategic Plan for PY 2011
- NDWD Policy No. 06-02, WIA Program Eligibility
- NDWD Policy 06-14, Participant Follow Up

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**Appendix C**

**Acronyms and Abbreviations**

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CFR	Code of Federal Regulations
CRIS	Common Reporting Information System
DINAP	Division of Indian and Native American Programs
DOL	Department of Labor
EAO	Employment Assistance Officer
EER	Entered Employment Rate
ETA	Employment and Training Administration
FPO	Federal Project Officer
HHS	Department of Health and Human Services
INAP	Indian and Native American Program
LMI	Labor Market Information
NDWD	Navajo Department of Workforce Development
NEW	Native Employment Works
NNOOC	Navajo Nation Office of the Comptroller
OIG	Office of Inspector General
OMB	Office of Management and Budget
OST	Occupational Skills Training
PY	Program Year
TEGL	Training and Employment Guidance Letter
WEX	Work Experience
WIA	Workforce Investment Act

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ETA Response to Draft Report


U.S. Department of Labor

Assistant Secretary for  
Employment and Training  
Washington, D.C. 20210



SEP 26 2013

MEMORANDUM FOR: ELLIOT P. LEWIS  
Assistant Inspector General  
Office of Audits

FROM: ERIC M. SELEZNOW   
Acting Assistant Secretary  
Employment and Training Administration

SUBJECT: Response to Office of Inspector General's Audit *Navajo Nation Did Not Adequately Manage Workforce Investment Act Grants and Could Service More Participants with Available Funds*, Audit Report 02-13-202-03-355

On behalf of the U.S. Department of Labor (the Department), Employment and Training Administration (ETA), thank you for the opportunity to comment on the Office of the Inspector General's (OIG) audit report entitled: *Navajo Nation Did Not Adequately Manage Workforce Investment Act Grants and Could Service More Participants with Available Funds*. The report offers a thorough review of the Navajo Department of Workforce Development (NDWD), and provides valuable recommendations to improve program efficiency and accountability.

The OIG report recommends that the Acting Assistant Secretary for ETA require NDWD to:

1. Implement accounting policies and procedures to properly allocate personnel and non-personnel costs. Furthermore, that the Navajo Nation implement and define practices to determine disallowable costs as outlined in the Navajo Nation Office of the Comptroller (NNOOC) Policy Manual.

**ETA's Response to Recommendations 1:** Upon receipt of NDWD's response, ETA will further assess the OIG recommendations. If the findings are correct, ETA will work with NDWD program to implement accounting policies and procedures that demonstrate actual personnel and non-personnel costs. ETA will also verify that NDWD finalizes and implements its NNOOC Policy Manual.

2. Conduct training with staff on accurate data reporting, and participant follow-up procedures.

**ETA's Response to Recommendations 2:** Based on quarterly program reports submitted, ETA has determined that NDWD's data is accurate. ETA uses the Wage

Record Interchange System (WRIS) which matches the records of NDWD participants with unemployment insurance wage records. ETA believes that this is a more efficient method of tracking participant outcomes. Due to limited staffing and resources, ETA contends that tracking participants after exit often presents a challenge for grantees.

The OIG report further recommends that ETA:

3. Recover questioned costs of \$8.0 million, or obtain appropriate support.

**ETA's Response to Recommendations 3:** ETA will work with NDWD to determine and recover any expenses that were incorrectly charged to the ETA grant.

4. Develop a policy for recapture and reallocation of excess carry-over funds for INAP grants.

**ETA's Response to Recommendations 4:** ETA concurs with this recommendation. ETA will develop and implement a policy to encourage more timely expenditure of grant resources to provide services to Native Americans and to recoup unexpended funds as allowable. In November 2013, ETA will confer with the Native American Employment and Training Advisory Council on the policy and implementation.

5. Ensure appropriate follow-up is performed to resolve findings and corrective actions after on-site monitoring reviews.

**ETA's Response to Recommendations 5:** ETA concurs with this recommendation. ETA will strengthen its follow up efforts for corrective-action after on-site monitoring reviews are conducted. ETA will ensure the Office of Workforce Investment, Division of Indian and Native American Program staff receives additional training and support to address this recommendation. In fact, the Division includes the status of monitoring actions in staff performance plans so that each FPO is accountable for ensuring timely corrective action by grantees. Further, ETA's Office of Grants Management provides annual Federal Project Officer training.

NDWD Response to Draft Report



Navajo Department of Workforce Development

Post Office Box 1889  
Window Rock, Arizona 86515  
Telephone: (928) 871-7707 Fax (928) 871-7116

September 24, 2013

Ref. No. 13-NDWD-039

Elliott P. Lewis  
Assistant Inspector General for Audit  
U.S. Department of Labor  
Office of Inspector General  
200 Constitution Avenue, N.W.  
Room S-5512  
Washington, D.C. 20210

RE: Audit Report No. 02-13-202-03-355

Dear Mr. Lewis:

The written responses to Draft Report #2 of Audit Report No. 02-13-202-03-355, is hereby submitted today's date. An on-site exit conference should have been conducted by the audit team.

Due to time and travel constraints, we did not have enough time to complete more on-site work with the audit team. We consider all audit reviews as positive feedback to make continuous improvements to serve constituents of the Navajo Nation. Audit reports should also portray positive accomplishments of programs being reviewed. Success stories also need to be broadcasted to the general public and public officials. The Navajo Department of Workforce Development has been implementing much-needed employment and training programs for the Navajo Nation, for many years.

The Navajo Department of Workforce Development will be requesting technical assistance to ETA U.S. Department of Labor DINAP to address the findings presented by this audit. I can be contacted at telephone number (928) 871-7721 for any additional information.

Sincerely,

A handwritten signature in cursive script that reads "Roselyn Shirley".

Roselyn Shirley  
Department Manager III  
Navajo Department of Workforce Development

Enclosures:

1. NDWD Audit Response Report
2. Exhibits A and B



**THE NAVAJO NATION  
DIVISION OF HUMAN RESOURCES  
NAVAJO DEPARTMENT OF WORKFORCE DEVELOPMENT**

**RESPONSE REPORT TO U.S. DEPARTMENT OF LABOR  
OFFICE OF INSPECTOR GENERAL – OFFICE OF AUDIT  
DRAFT AUDIT REPORT #2  
AUDIT REPORT NO. 02-13-202-03-355  
SEPTEMBER 24, 2013**

**OVERVIEW:**

The Navajo Department of Workforce Development (NDWD), the designated administrative entity of the Navajo Nation to administer and implement Workforce Investment Act (WIA) Section 166 funds and programs, was audited by a team from the Office of Inspector General, Office of Audit. The audit reviews and retrieval of documents was very quick and did not facilitate more on-site discussion of these audit findings and documentation. On-site time was limited for the audit team and not all copies of documents were provided to the NDWD Department Manager for the entire audit. The collection and retrieval of documents took majority of on-site work time of the audit team.

A number of areas in program management and controls were reviewed by the audit team. The WIA Bear Tracks reporting databases were provided to the auditors. A number of interviews were conducted; however, not all interviews could be attended by the Department Manager or key staff. Completing interviews to match period of audit is not appropriate, as employees will not correctly recall what they were doing or provide detailed information from years past.

The Navajo Nation's Office of the Controller (OOC) is the designated fiscal agent for the Navajo Department of Workforce Development and its external-funded programs. The NDWD Department Manager does not supervise the OOC staff. The actual posting of expenditures and final charges of all funds is performed by the Office of the Controller units. The OOC WIA Accounting Section and OOC Contract Accounting Unit are assigned to complete cash drawdowns of grant funds. The OOC WIA Accounting Section is currently responsible for submission of WIA quarterly 9130 reports for WIA programs. The OOC WIA Accounting Section's Senior Accountant prepares the NDWD employee cost-allocation charges for each quarter. The charges for appropriate Indirect Costs are posted by OOC WIA Accounting Section as authorized by their supervisors. The OOC provided access to the Navajo Nation's Financial Management Information System, during the audit.

A complete audit response needs to involve the Navajo Nation Office of the Controller and the Office of Management and Budget. The Navajo Department of Workforce Development employees were working on other audits at the time of this audit by the Office of Inspector General team. This caused daily retrieval of documents and accommodating of all auditors at one time for a number of months.

**Finding 1 – NDWD did not properly manage \$8.0 million in INAP grant funds**

**RESPONSE:**

NDWD Department Manager will convey the requirements of current accounting manuals to the Navajo Nation Controller and OOC Contract Accounting Unit. The Office of the Controller relocated to an alternate worksite due to contamination problems with their building. At the time of the audit, financial documents needed to be retrieved from the storage bins.

**A. NDWD did not have adequate controls in place to properly allocate personnel costs of \$6,676,572.**

**RESPONSE:**

The OOC WIA Accounting Section's personnel cost-allocation work sheets were not reviewed with NDWD Department Manager and HR Senior Office Specialist. NDWD Workforce Centers' quarterly program statistics are submitted to OOC WIA Accounting Section. This method of use of quarterly program statistics for personnel cost-allocation was based on written recommendation from OOC supervisors.

The OOC WIA Accounting Section prepares the worksheets for posting of personnel expenditures every quarter. The OOC WIA Accounting Section's Senior Accountant posts the personnel expenditures into the FMIS. NDWD Department Manager does not approve these worksheets or the posting of actual expenditures.

The Department Manager and appropriate staff can review the questioned costs with the OOC WIA Accounting Section. The NDWD Department Manager needs to be involved in reviews of quarterly personnel costs expenditures. The cost-allocation of WIA and NEW Program personnel costs needs a procedure or method to be agreed to with the Navajo Nation OOC, which needs to be submitted to U.S. Department of Labor and Department of Health and Human Services for approvals. Personnel cost-allocation procedures have been initiated previously; however, the approval of the methodology needs to be properly approved by the funding agencies.

**B. NDWD did not have controls in place to properly allocate and charge non-personnel costs of \$1,295,986.**

**RESPONSE:**

The Table 1: Summary of questioned personnel costs, the following expenditures posted for personnel costs need to be reviewed with OOC WIA Accounting Section. Personnel Action Forms need to be compared with the expenditures posted every quarter. The use of clearing accounts for the personnel cost pool needs to be reviewed with OOC WIA Accounting Section every quarter.

NDWD cannot provide documentation or provide justifications for the following questioned costs included in Table 2: Summary of Questioned Non-Personnel Costs. The Navajo Nation OOC has to respond to these costs and documents.

1. Unsupported Adjusting Journal Entries: \$380,722
2. Prior Period Expenses and Late Fees Paid: \$23,661
3. Indirect Costs Applicable to Questioned Cost: \$539,699

**NDWD did not obtain ETA approval for capital improvements of \$224,277.**

RESPONSE:

The amount of \$224,277 was used to process procurement for and purchase of the following equipment and services:

1. Real Time Solutions Professional Service Contract: \$ 55,337  
The professional services agreement is for more than one year. Consultation will be made with the Federal Projects Officer on approval prior to additional funding. Documents are submitted as "Exhibit A" with additional information.
2. Southern Computer Warehouse Inc. Purchase Order: \$ 40,532  
The unit price did not exceed the \$5,000 threshold and did not require ETA DINAP approval.
3. CDW Government Inc. Purchase Order: \$128,408  
The unit price did not exceed the \$5,000 threshold and did not require ETA DINAP approval.

Navajo Nation's procurement rules and regulations were complied with in the procurement of these purchases and the Real Time Solutions Professional Services Contract. The contract for Real Time Solutions includes development of NDWD portal, Web-based Electronic Document Management, Web-based Document Tracking, Integration and Hosting/Technical Support.

The federal rules and regulations as cited by the auditors at 2 CFR §225 Appendix B – "Selected Items of Cost" need to be updated to clearly define computer technology purchases and include useful language for the continuing expiration of computer hardware and software. NDWD upgraded its operating system due to non-compatibility problems with old software and equipment. The website needed to be upgraded to be customer-friendly and assist employees in tracking of important program documents. WIA program funds should be used to support continuous computer technology upgrades which are very-much needed especially in our field offices.

In the future, if DOL DINAP needs to review NDWD program budgets for any costs that may require the approval of the funding agency officials, which can be another layer of approvals to be implemented. NDWD provides written justification for WIA funds at the time of grant application. The Navajo Nation Office of Management and Budget is the oversight office internally to review all budgets and enter the approved budgets into the Navajo Nation Financial Management Information System. Technical assistance will be requested from the assigned Federal Projects Officer on reviews of current agreements.

**Finding 2 – Despite excess carry over funds of \$8.5 million, prospective participants are waiting for employment and training services.**

**RESPONSE:**

The five Workforce Centers and sub-offices located in the three states of Arizona, New Mexico and Utah provide direct services to interested individuals with program information, those that need only core services, and program services to eligible youth and adults. The program intake, screening, comprehensive assessment services, development of service strategies, program enrollments, and follow-up services are provided by the Workforce Centers.

All program budgets are properly processed and approved through Navajo Nation Office of Management and Budget. Every program dollar is budgeted and approved by required budget forms and processes before internal authorizations are issued for implementations of expenditures. 80% of all WIA funding allocations are budgeted for direct services. NDWD submits WIA Section 166 grant applications and strategic plans in accordance with planning guidance instructions issued by ETA U.S. Department of Labor.

**NDWD has consistently exceeded its carry-over limit since PY 2008.**

**RESPONSE:**

NDWD Department Manager and key staff have communicated with DOL DINAP Chief and Federal Projects Officers to expedite the Notices of Obligations for funding awards of WIA funding allocations. Not all Notices of Obligations for each program year are received on a timely schedule. Notices of Obligations are normally received by e-mail from the ETA Grant Officers or Federal Projects Officers. The untimely receipt of Notices of Obligations for state funds has caused late implementation of program activities and expenditures.

20 CFR §667.107 is used for guidance in the management of WIA funding allocations.

*What is the period of availability for expenditure of WIA funds?*

- (a) *Grant funds expended by States. Funds allotted to States under WIA sections 127(b) and 132(b) for any program year are available for expenditure by State receiving the funds only during that program year and the two succeeding program years.*

Based on research and notices on file with the NDWD Department Manager, the following information is provided on the Notices of Obligations for WIA funds and Grant Modifications received since Program Year 2008:

**Program Year 2008: Grant No. AB-17175-08-55-A-4**

Mod #	Effective Date	Date Received	Funding Allocation
0	6/10/2008	1/23/2009	\$3,077,431 SYSP
1	7/1/2008	1/23/2009	\$5,866,074 CSP
2	10/6/2008	10/31/2008	\$1,952,912 State Adult, Youth, PY DW
3	10/9/2008	10/31/2008	\$1,504,340 State FY09 Advance Adult & DW
4	11/7/2008	1/14/2009	Unilateral Mod – 1) Incorporate CSP Pgs 2-39, 2) 20% AC, 3) Extend PY08 Allotments to 6/30/2009

**Program Year 2009: Grant No. AB-17175-08-55-A-4**

Mod #	Effective Date	Date Received	Funding Allocation
5	2/17/2009	3/20/2009	\$3,956,397 ARRA SYSP; Period of Performance issued for 2/17/09 to 6/30/11.
7	4/1/2009	7/28/2009	\$8,943,504 CSP & SYSP
8	6/30/2009	8/13/2009	\$3,050,738 ARRA State PY Adults, Youth, PY DW
9	11/24/2009	12/28/2009	\$3,156,371 State FY10 Advance Adult, PY Adult, FY10 Advance DW, PY DW, PY Youth

**Program Year 2010: Grant No. AB-17175-08-55-A-4**

Mod #	Effective Date	Date Received	Funding Allocation
10	4/1/2010	Not Available	\$3,077,429 SYSP
11	7/1/2010	Not Available	\$5,866,074 CSP
12	7/29/2010	1/10/2011	\$1,747,869 State PY Adult, PY Youth, PY DW
13	8/4/2010	3/14/2011	Notice only
14	7/1/2010	3/14/2011	\$1.00 CSP
15	11/16/2010	3/14/2011	\$1,507,253 State FY11 Advance Adult, FY11 Advance DW
			NOTE: PY10 Funds authorized 4/1/2010 to 6/30/12

**Program Year 2011: Grant No. AB-21609-11-55-A-4**

Mod #	Effective Date	Date Received	Funding Allocation
0	4/1/2011	7/6/2011	\$2,750,542 SYSP
1	7/1/2011	7/7/2011	\$1,381,776 State PY Youth
2	7/1/2011	7/28/2011	\$5,854,341 CSP
3	7/1/2011	1/6/2012	\$276,023 State PY Adult & PY DW
4	11/30/2011	1/5/2012	\$1,828,642 State FY12 Advance Adult & FY12 Advance DW

The receipt of Notices of Obligations for state funds is on a delayed basis, not in accordance with the program year funding cycles. This is causing a "snow-ball" effect whereby carryover of funds continues into the next program year. NDWD Department Manager will consult with assigned Federal Projects Officer to facilitate communication on this reoccurring problem.

**Prospective participants were waiting for employment and training services.**

**RESPONSE:**

The NDWD Administration's Department Manager and unit supervisors disagree with this statement made by the auditors. There were no listings of pending applicant pools provided by the Workforce Centers' staffs that were interviewed. The prioritization of program applicants and decisions for serving the most-in-need and target populations to be served is based on case management assessments at the field offices.

The need to re-enroll former participants can be justified by Employment Assistance Officers based on re-assessments and revision of program service strategies. All approvals of new program enrollments or re-enrollments are the responsibilities of the Workforce Centers' Program Supervisors. Workforce Centers' Program Supervisors are allowed to request for reallocation of unspent direct services funds, to accommodate additional pending enrollments. These requests are addressed with re-allocation of unspent funds by the Administration Office's Planning and Marketing Unit.

Copies of all NDWD program policies and procedures have been provided to DOL DINAP Federal Projects Officers. No recommendations have been received to revise policies if there are any unnecessary limitations or restrictions. INA Grantees are required to ensure program policies and procedures safeguard integrity of program services and compliance with quality assurance practices, including data quality for program reporting. The NDWD Department Manager is required to insure internal reviews of all policies and procedures before approval and implementation.

**Finding 3 – NDWD did not achieve some performance goals and provided minimal follow-up after participants left the program.**

**RESPONSE:**

NDWD Management Information System (MIS) Unit is the lead office to compile and certify all program participant reporting every quarter and meet reporting deadlines for all programs. An internal corrective action was implemented in January 2011 to centralize all NDWD program records and data-entries into the WIA Bear Tracks Reporting Systems. This is to improve data-validation and provide immediate alerts to the field staff for needed record updates and OMB Common Measures quarterly follow-ups. The MIS Unit generates detailed Bear Tracks Reports to justify all program statistical reports.

All quarterly program reports are reviewed and certified by Federal Projects Officers. There is no written notice to NDWD on not meeting planned performance measures or non-compliance with grant planning worksheets. Services to target populations of school dropouts or those needing remedial skills training may involve more than one program year; and therefore, not reported until a complete positive outcome is achieved. NDWD experiences a major need of addressing basic skills remediation or youth that need to return back to school and achieve a high school diploma. A skills training online software has been implemented to assist these populations, with direct consultation by the NDWD Workforce Center Counselors.

Documents are submitted as "Exhibit B" to clearly demonstrate the Youth Program Attainments for the period of April 1, 2011 to March 31, 2012. The attainment of two or more goals for each participant is significantly achieved with check marks for the listing of youth goals. The audit team did not have time to review the program participant reports on-site or have the missing follow-up documents addressed prior to completion of the audit work.

NDWD staffs have attended training to implement the WIA Comprehensive Services OMB Common Measures, at WIA regional and national conferences. NDWD staff meetings have provided training and informational hand-outs on an annual basis to all employees. The NDWD Department Manager and the Workforce Centers' Program Supervisors can address the program follow-up requirements with inclusion of follow-up work activities scheduled for the Employment Assistance Officers on a monthly basis.

NDWD staffs have not been trained on use of the Kansas Department of Commerce's Common Reporting Information System (CRIS) or use of state UI wage databases. If Section 166 grantees are able to have access to these state databases, the information needs to be provided in a written guidance from U.S. Department of Labor DINAP. Actual names of program participants reported in the UI wage databases are not reported back to NDWD.

**Appendix F**

**Acknowledgements**

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Key contributors to this report were: Mark Schwartz, Cardelia Tsoi, Susan Rosenblum, Eliacim Nieves-Perez, Reza Noorani, Andrew Loomis, Mary Lou Casazza, and Ajit Buttar.



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