

Charlotte Works Response to Draft Report

CHARLOTTE WORKS

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July 24, 2014

Mr. Elliot P. Lewis  
Assistant Inspector General for Audit  
U.S. Department of Labor  
200 Constitution Avenue, N.W.  
Room S-5506  
Washington, D.C. 20210

RE: Draft Audit Report No. 03-14-002-03-390

Dear Mr. Lewis:

Charlotte Works welcomes the feedback from the OIG team that investigated the anonymous complaint filed in September 2011. As a transparent organization, Charlotte Works is very open to the review and would like to provide feedback to the findings.

Charlotte Works acknowledges that, at the time of the complaint, the financial policies and procedures of the organization needed to be strengthened. Coincidentally, and ahead of the complaint, the leadership team transitioned in the fourth quarter of 2011 as a directive from the Workforce Development Board. Part of the motivation to transform the entire system included the Board's desire to embrace best practices across operations, especially in accounting practices. Today, Charlotte Works adheres to industry standards and practices. We are proud of our progress.

There were six findings from the OIG complaint. Charlotte Works disagrees with findings B and D and their corresponding recommendations as detailed below.

OIG Finding - B:

Charlotte Works mischarged \$59,187 of \$280,589 in WIA funds for capital leasehold improvements related to the creation of the Employer Engagement Center

*7. Repay \$59,187 improperly used for capital leasehold improvements related to construction of the Employer Engagement Center*

Charlotte Works Response - B:

At issue is \$59,187 that Charlotte Works spent to cover the costs of paint and flooring during the renovation of the Employer Engagement Center. Based on information provided by the accounting staff in place at the time, we believed the payment for the leasehold improvements in the manner made to be allowable.

Our landlord advised us that if he had made these leasehold improvements prior to our move into the space, he would have charged us an additional \$1,200 per month for the base rent cost, interest and risk premium. We calculate \$1,200 per month multiplied by the 60 months of the lease equals an additional cost of \$72,000 would have occurred. As the funds were available to pay for flooring without incurring this additional long-term cost, Charlotte Works chose to save taxpayers the \$12,813 difference, which we believed to be a more efficient use of public funds.



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OIG Finding - C:

Charlotte Works charged \$66,972 in costs that exceeded the ten percent WIA limitation for administrative costs

8. *Repay \$66,972 in administrative costs that exceeded the WIA 10 percent limitation for PYs 2009 through 2011*

Charlotte Works Response - C:

During the audit of costs for these program years, OIG staff tested 10 vouchers submitted to the City of Charlotte for reimbursement of program costs to conclude that we mischarged \$66,972 in administrative costs to program costs, thus exceeding our allowable 10-percent administrative cost limitation. These 10 vouchers were for program costs *only*, and reviewed *only* to determine if program dollars were used to pay administrative costs. OIG staff did not sample administrative costs to verify if the converse – administrative dollars applied to program costs – was true, despite our request for this test.

Our own internal review of not only these 10 vouchers, but of *all* vouchers for reimbursement of formula and ARRA funds during these three program years, found invoices that were charged to administrative costs that could have been allocated entirely or partially to program costs, and invoices that were charged to program costs that should have been allocated partially or totally to administrative costs. In fact, Charlotte Works paid more than \$349,533 in program costs from administrative funds, thereby more than offsetting the \$66,972 in overspending alleged by OIG. (These schedules have been provided to both OIG and ETA.)

We also note that during Program Years 2009 through 2011, Charlotte Works had more administrative funds to perform administrative functions than needed, so we routinely paid WIA program costs out of WIA administrative funds, rather than returning those excess funds. Charlotte Works could not have overspent administrative funds on administrative costs when we directed such a large portion to programming.

Charlotte Works asserts that OIG's methodology (e.g., a sample size that only included expenses originally charged to program costs and no expenses originally charged to administrative costs) was flawed and led to the false assumption that we overspent our administrative set-aside. We note that OIG "concluded that it was not feasible to expand our testing because it would have required us to review 100 percent of all costs charged to identify those that were misclassified, and subsequently determine the correct allocation between administrative and program costs."

We do not request reimbursement of the funds based on our findings, but do strongly maintain that we clearly did not spend more than the allowable 10 percent for administrative costs.

As noted at the beginning of this response, Charlotte Works is mindful of our responsibility of good stewardship of public funds. Accordingly, we operate by the highest standards.

Sincerely,



Steven B. Partridge  
President/CEO

Division of Workforce Solutions Response to Draft Report



North Carolina  
Department of Commerce  
*Division of Workforce Solutions*

Pat McCrory, Governor  
Sharon Allred Decker, Secretary

Will Collins, Assistant Secretary for Workforce

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Washington, D.C. 20210

RE: Draft Audit Report No. 03-14-002-03-390

Dear Mr. Lewis:

We appreciate the opportunity to respond to the Office of the Inspector General's (OIG) draft report of the investigation of an anonymous complaint concerning Workforce Investment Act (WIA) activities at Charlotte Works.

Though many of the allegations raised in the anonymous complaint proved to be unfounded, this report indicates that there are issues with the use of WIA funds for capital improvements and with the charging of administrative costs. Staff from Charlotte Works have disputed those findings and have raised valid concerns about the methodology used and the conclusions reached through the investigation. While staff from our Division were engaged in the early stages of the investigation and provided assistance to OIG staff with data and background information, we were not involved in the actual on-site analysis of expenditures. Nevertheless, we are very familiar with the positions that the staff of Charlotte Works have taken regarding the findings of the OIG and we are in full support of their point of view.

We would hope that the final report of this investigation will include the additional information available from the Charlotte Works staff and that the conclusions in the report will be revised appropriately.

Sincerely,

A handwritten signature in black ink that reads "Will Collins".

Will Collins  
Assistant Secretary

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ETA Response to Draft Report


U.S. Department of Labor

Employment and Training Administration  
200 Constitution Avenue, N.W.  
Washington, D.C. 20210



AUG 15 2014

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

FROM: PORTIA WU   
Assistant Secretary

SUBJECT: Response to the Office of the Inspector General's Audit,  
The Charlotte Works Reorganized One-Stop Delivery  
System met Most WIA Requirements

The Employment and Training Administration (ETA) appreciates the opportunity to provide a response to the Office of the Inspector General's (OIG) audit report on alleged fraud, waste, and abuse of Workforce Investment Act (WIA) Title 1B funds by the Charlotte Works Workforce Development Board during the recent reorganization of its one-stop delivery system. We were pleased that the OIG audit confirmed that Charlotte Works was in compliance with most WIA requirements and concur with OIG's recommendations, including the identification of some questionable grantee costs.

In response to the draft report, ETA's Regional Office in Atlanta has engaged North Carolina's state workforce agency (SWA) and Charlotte Works on the findings and appropriate corrective actions plan. On Thursday, June 24, both the SWA and Charlotte Works provided OIG with responses to the report which agreed with all but two of the OIG findings. As part of its response, Charlotte Works provided additional information regarding the questioned findings for further consideration by OIG. Charlotte Works has demonstrated to ETA that they are taking proactive actions in response to the unchallenged findings by transforming its accounting system and adhering to accepted industry standards and practices. ETA will continue to engage with both the SWA and Charlotte Works throughout the implementation of these changes. In regards to the two questioned findings, ETA wants to ensure that Charlotte Works' objections and additional information are considered before taking further action.

Following the release of OIG's final report, ETA will pursue necessary corrective actions in response to OIG's final audit findings. ETA will follow our audit resolution procedures as outlined in 20 CFR Part 667.400 through 667.510. After our final determination is issued, ETA will conduct a monitoring visit to ensure all necessary corrective actions have occurred.

Again, ETA appreciates the OIG's investigation of alleged mismanagement of WIA funds and this opportunity to provide a response to the final report.