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Postaward Survey of the Washington Alliance Welfare-to-Work Competitive Grant

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ACRONYMS

CFR	Code of Federal Regulations
DCDHS	District of Columbia’s Department of Human Services
DCDOES	District of Columbia’s Department of Employment Services
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FARs	Federal Acquisition Regulations
GOTR	Grant Officer’s Technical Representative
LIFECARE	LIFECARE Management Partners
MOU	Memorandum of Understanding
OIG	Office of Inspector General
TANF	Temporary Assistance for Needy Families
WtW	Welfare-to-Work

EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL) Employment and Training Administration (ETA) awarded the Washington Alliance a \$5 million Welfare-to-Work (WtW) competitive grant on January 4, 1999. The grant application described the Washington Alliance as a collaborative effort of nine companies with two general partners and seven subcontractors.

The Office of Inspector General (OIG) performed a postaward survey of the Washington Alliance's WtW competitive grant program. The purpose of our postaward survey was to make an assessment of the Washington Alliance's capability to administer the grant in accordance with the applicable regulations so that, if possible, it could implement timely corrective action to improve program performance and internal controls.

We concluded that the Washington Alliance does not have either the administrative or program capability to operate this WtW grant in accordance with the grant agreement and the WtW regulations. Our major concern is that the Washington Alliance's current organizational structure and program operations are significantly different than what it represented in its grant agreement. The original grant application, which formed the basis for the competitive award, proposed a collaborative effort of nine organizations, two serving as general partners and seven as subcontractors. Currently, only four of the original nine organizations are involved in any formal way in carrying out the Washington Alliance's WtW grant, with an additional entity reduced to a partner with no role or authority. As a result, the proposed structure that constituted the basis of the competitive grant award has been reduced by more than one-half. We believe this dramatic departure from the proposed structure essentially invalidates the competitive award, since there is no way of knowing whether the applicant would have competed successfully had the current structure and program design been the one proposed in the competition.

Other problems found with the Washington Alliance's WtW program were:

- The use of vendor agreements circumvented WtW's administrative cost limitations.
- Vendor agreements were awarded without free and open competition.
- Vendor agreement costs appear unreasonable and were not evaluated using a price or cost analysis.
- Rental of space from the District of Columbia's Department of Employment Services (DCDOES) was improperly arranged.
- Staff salaries appear unreasonable and were not based on an established compensation plan.

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- Enrollment levels are low compared to goals.
- No fidelity bond was purchased for the WtW competitive grant to protect the Government's interest.

We discussed the results of our survey with the ETA Grant Officer and the Director of the Office of WtW, who directed the Grant Officer's Technical Representative (GOTR) to perform an in-depth monitoring review. The GOTR's review not only confirmed the problems we identified, but raised additional problems requiring corrective action.

It is our opinion that these problems, taken as a whole, clearly demonstrate that the Washington Alliance is not operating its WtW program according to either the approved grant agreement or the applicable WtW regulations. To safeguard the Government's interest, we recommend that ETA immediately start actions to terminate the Washington Alliance's WtW competitive grant.

In his written response to our draft report, the Assistant Secretary for Employment and Training stated that while ETA shares OIG's concerns regarding the viability of the Washington Alliance's WtW competitive grant, they have not yet concluded that the Washington Alliance does not have either the administrative or program capability to operate the grant in accordance with the grant agreement and WtW regulations. ETA has requested the Washington Alliance submit a detailed corrective action plan which will serve as the basis for ETA's decision whether or not to terminate the grant as recommended by OIG.

We continue to believe that immediate action should be taken to terminate the Washington Alliance WtW competitive grant in order to protect the government's interest. The current structure, operation, and program design are materially noncompliant with the conditions of the grant award. Moreover, because the award was made on a competitive basis, we believe it is inherently unfair to permit this grantee to continue where other, perhaps more worthy, applicants were denied grants in the competitive process. The issue of whether the Washington Alliance entity is what was represented in its competitive grant proposal was first raised in April 1999. Approximately 12 months – and over \$790,000 in grant expenditures – later, we are unconvinced that a functional alliance exists. Moreover, we have identified deficiencies in the grantee's program and administrative operations that, in our opinion, the Washington Alliance has shown neither the capability nor willingness to correct. Therefore, we stand by our recommendation that ETA terminate the grant.

OBJECTIVES, SCOPE, METHODOLOGY, AND CRITERIA

The purpose of our survey was to evaluate the Washington Alliances's financial management and program systems and make an assessment of its capability to administer the grant. Our work was performed using a postaward survey guide which was designed by OIG to make an early assessment of the Washington Alliance's program operations so that, if possible, it could implement timely corrective action to improve program performance and internal controls.

We initially scheduled our survey to begin on April 12, 1999. However, we deferred the scheduled start because of issues raised by the GOTR concerning the Washington Alliance's membership and administration, specifically, the lack of formal documents of partnership or incorporation. ETA's involvement resulted in the Washington Alliance changing its organizational structure from a general partnership to a limited partnership, with one member filing a Certificate of Limited Partnership in the District of Columbia on May 10, 1999. Accordingly, we rescheduled our survey to begin October 12, 1999. Field work ended October 22, 1999.

During our survey, we assessed the financial and program systems currently operational, or being planned, for administering this WtW grant. To accomplish this, we evaluated the Washington Alliance's grant agreement, operating procedures and policies, and applicable criteria. We also interviewed key staff persons involved in developing and administering Washington Alliances's WtW program.

At the completion of our survey, we met with the ETA Grant Officer and the Director of the Office of Welfare-to-Work to discuss our concerns regarding the Washington Alliance's administration of its WtW grant. The ETA Grant Officer directed the GOTR to perform a review of the Washington Alliance's current operations. We agreed to wait until the GOTR completed his review before issuing our report. The GOTR completed his review and reported the results to the ETA Grant Officer. On December 28, 1999, the ETA Grant Officer sent a letter to the Washington Alliance which summarized the GOTR's report and requested that a corrective action plan be submitted within 30 days. Washington Alliance's response to the letter was received on January 28, 2000. The ETA Grant Officer found the Washington Alliance's corrective action plan to be incomplete. The ETA Grant Officer sent the Washington Alliance a letter on March 15, 2000, requesting it to submit a more detailed corrective action plan within 10 working days.

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The following criteria were used:

- WtW provisions promulgated through Title 20 Code of Federal Regulations (CFR) Part 645, dated November 18, 1997;
- administrative rules contained in Title 29 CFR Part 95, dated August 29, 1997; and
- cost principles detailed in the Federal Acquisition Regulations (FARs), Title 48 CFR Part 31, dated June 17, 1999.

Our survey was performed in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States.

BACKGROUND

The WtW program was authorized by the Balanced Budget Act of 1997 to move hard-to-employ welfare recipients into unsubsidized employment and economic self-sufficiency. Hard-to-employ welfare recipients are defined by the WtW regulations as individuals who are: enrolled in the Temporary Assistance for Needy Families (TANF) program; are receiving long-term welfare assistance and meet a barriers-employment test or have the characteristics of long-term welfare dependents; or are noncustodial parents of TANF recipients. The Balanced Budget Act of 1997 authorized \$3 billion for WtW grants in fiscal years 1998 and 1999. Of this amount, 25 percent has been awarded to selected Private Industry Councils, political subdivisions, or private entities through a competitive grant process. The WtW competitive grants are designed to develop and implement creative and innovative approaches to enhance a community's ability to achieve WtW goals. On April 15, 1998, ETA announced a second round of WtW competitive grants. ETA's announcement described the conditions under which applications would be received and how they would determine which applications to fund.

The Washington Alliance was awarded a \$5 million WtW competitive grant on January 4, 1999. The grant application described the Washington Alliance as a collaborative effort of the following nine companies: ORB Technologies; Anacostia Economic Development Corporation; LIFECARE Management Partners (LIFECARE); Capital Commitment, Inc. (Capital Commitment); Howard University; Refrigeration Supply Company; DCDOES; American Computer Utopia; and Crawford and Company. The grant application also listed ORB Technologies and LIFECARE as the two general partners and the other organizations as subcontractors.

In the spring of 1999, the GOTR informed the Office of WtW and the ETA Grant Officer that the Washington Alliance had no formal documents of partnership or incorporation, although the grant application was made in the name of an alliance which described itself as a partnership.

LIFECARE subsequently filed as the sole general partner in a formal limited partnership and assumed total responsibility on behalf of the Washington Alliance for the WtW grant. A grant modification dated June 24, 1999, accepted the organizational change from a general partnership to a limited partnership, with LIFECARE as the managing general partner and ORB Technologies as a limited partner. The modification also stated that the Washington Alliance would function as a consortium of organizations. The modification included a concept-of-operations plan and changed the grant period and grant budget.

As of December 31, 1999, the Washington Alliance had enrolled 98 participants and expended \$790,998 in WtW grant funds.

FINDINGS AND RECOMMENDATIONS

1. The Washington Alliance's Organizational Structure and Program Operations Do Not Agree with the Grant Agreement

The Washington Alliance's current organizational structure and program operations are significantly different than what it represented in its grant agreement. The original grant application, which formed the basis for the competitive award, proposed a collaborative effort of nine organizations, two serving as general partners and seven as subcontractors. Currently, only four of the original nine organizations are involved in any formal way in carrying out the Washington Alliance's WtW grant, with an additional entity reduced to a partner with no role or authority. As a result, the proposed structure that constituted the basis of the competitive grant award has been reduced by more than one-half. We believe this dramatic departure from the proposed structure essentially invalidates the competitive award, since there is no way of knowing whether the applicant would have competed successfully had the current structure and program design been the one proposed in the competition.

The following are details of our survey of the Washington Alliance's organizational structure and program operations.

Organizational Structure

The Washington Alliance has never been a collaborative effort of nine companies as described in the grant agreement. The Washington Alliance changed its organizational structure after the grant award which resulted in vesting control to one individual. Moreover, relationships have been established with only four of the nine companies cited in the grant agreement. Specifically, we found:

- The Washington Alliance lacked formal partnership agreements when the grant was initially awarded. In its grant application, the Washington Alliance presented itself as a collaborative effort of nine companies, of which two were general partners and the remaining seven were supposed to be subcontractors. However, after the grant was awarded, the GOTR found there were no formal documents of partnership or incorporation. Additionally, there were no written agreements among the parties setting forth their various roles and responsibilities. As a result of the GOTR's concerns, the Washington Alliance changed its organizational structure from a general partnership to a limited partnership. The change designated LIFECARE as the sole general partner and the only organization authorized to execute subcontracts and commit WtW funds. ORB Technologies became a limited partner with no authority to administer the WtW grant.

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- We found no evidence to demonstrate that Washington Alliance is now, or ever was, a collaborative effort or consortium of agencies and firms established to operate its WtW program. The Washington Alliance has signed written agreements with only four of the nine organizations originally included in the collaborative effort described in the grant agreement. Vendor agreements have only been executed with Crawford and Company and Howard University for case management services, and Capital Commitment for telecommunications and life skills training. A subcontract has been executed with LIFECARE for administration and management.
- In reality, the Washington Alliance is LIFECARE rather than a collaborative effort of nine companies. The managing general partner for LIFECARE and the managing general partner for the Washington Alliance are the same person and he has total control of the \$5 million WtW grant. This person executed a contract agreement between the two organizations authorizing LIFECARE to administer and manage the WtW grant. In this contract agreement, the LIFECARE managing general partner still implied that the Washington Alliance was a consortium of agencies and firms established to operate the WtW program.

Program Operations

The design and structure of the Washington Alliance's current program operations are significantly different than the program design included in the grant agreement. The grant agreement stated that the Washington Alliance WtW program is modeled on four successful welfare-to-work job placement and postemployment training programs and that five of the nine companies included in the Washington Alliance would provide job placement services. However, we found that the Washington Alliance did not execute agreements with all of the organizations cited in the grant agreement as providing job training and placement services, and it changed the approach for job placement.

- The Washington Alliance executed an agreement with only one of the four postemployment training programs cited in the grant agreement. The grant agreement cites the following organizations for the postemployment component of the Washington Alliance's WtW program: Capital Commitment, Refrigeration Supply Company, American Computer Utopia, and the Anacostia Economic Development Corporation. The Washington Alliance only has an agreement with Capital Commitment to provide classroom training. We found no evidence that the Washington Alliance intends to negotiate agreements with any of the other postemployment training organizations cited in the grant agreement.

In fact, the June 24, 1999, grant award modification does not include either the Anacostia Economic Development Corporation or American Computer Utopia in the list of classroom

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training contractors.

- The Washington Alliance has not executed agreements for placement services with any of the five organizations cited in the grant agreement. The grant agreement contains an organizational chart which shows that five of the nine organizations originally identified as part of the collaborative effort will provide job placement services. These organizations are LIFECARE, Howard University, DCDOES, Crawford and Company, and the Anacostia Economic Development Corporation. The basic administrative structure at LIFECARE leads us to conclude that LIFECARE, as the Washington Alliance, intends to make job placements itself.

Overall, we concluded that the Washington Alliance organizational structure and program operations do not reflect what is described in its grant application, which was the basis for being awarded its WtW grant. The Washington Alliance would need to make significant changes to its administrative and program operations to adhere to its approved grant agreement. It is our opinion that the changes cannot be achieved.

Recommendation

We recommend that the Assistant Secretary for Employment and Training direct the ETA Grant Officer terminate the Washington Alliance's WtW grant immediately for failure to adhere to the terms of the grant, to the merits for which it was awarded, and for the basic program design in the grant proposal upon which this competitive grant was reviewed and awarded.

Agency Response

The Assistant Secretary for Employment and Training responded that while ETA shares OIG's concerns regarding the viability of Washington Alliance's WtW competitive grant, they have not yet concluded that Washington Alliance does not have either the administrative or program capability to operate the grant in accordance with the grant agreement and WtW regulations. The Assistant Secretary for Employment and Training explained that ETA sent Washington Alliance a letter on March 15, 2000, informing it that its January 28, 2000, corrective action plan, required as a result of problems found during the GOTR's monitoring review, was incomplete. The letter required the Washington Alliance to submit a more detailed corrective action plan within 10 working days. The Assistant Secretary believes this process will provide the information necessary to make the determination of

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whether OIG's recommendation to terminate the grant is warranted.

OIG Conclusion

We continue to believe that immediate action should be taken to terminate the Washington Alliance WtW competitive grant in order to protect the Government's interest. We believe the current structure, operation, and program design are materially noncompliant with the conditions of the grant award. Moreover, because the award was made on a competitive basis, we believe it is inherently unfair to permit this grantee to continue where other, perhaps more worthy, applicants were denied grants in the competitive process. The issue of whether the Washington Alliance entity is what was represented in its competitive grant proposal was first raised in April 1999. Approximately 12 months – and over \$790,000 in grant expenditures – later, we are unconvinced that a functional alliance exists. Moreover, we have identified deficiencies in the grantee's program and administrative operations that, in our opinion, the Washington Alliance has shown neither the capability nor willingness to correct. Therefore, we stand by our recommendation that ETA terminate the grant.

2. The Washington Alliance's Use of Vendor Agreements Instead of Subrecipient Agreements Circumvents WtW Administrative Cost Limitations

The Washington Alliance's managing general partner has decided to use vendor agreements rather than subrecipient agreements to purchase professional case management services and classroom training. This approach circumvents the requirements set forth in the FARs and the WtW regulations.

We used 29 CFR 99.210 as a guidance in determining the definition and characteristics of subrecipients and vendors.

A **subrecipient** is described as a legal entity to which a subaward is made and which is accountable to the recipient for the use of funds provided. A subrecipient exists when the organization receiving a Federal award performs the following activities:

- S determines eligibility for the program
- S has performance measured against the Federal program objectives
- S is responsible for programmatic decision making
- S is responsible for adherence to program regulations
- S uses Federal funds to carry out a program as opposed to providing goods or

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services for the program

A **vendor** is described as a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. Characteristics of a vendor are:

- S provides the goods and services within normal business operations
- S provides similar goods or services to many different purchasers
- S operates in a competitive environment
- S provides goods and services that are ancillary to the operation of the Federal program
- S is not subject to the Federal program regulations

Washington Alliance's Vendor Agreements

The grant agreement states that its program was modeled on four successful WtW job placement and postemployment training programs and that five of the nine organizations included in the Washington Alliance would provide job placement services. Additionally, according to documentation in the June 24, 1999, grant award modification, all subcontractor agreements would be performance-based and each subcontractor would be subject to termination if placement goals and wage rates after training are not satisfactory.

Based on the above descriptions, along with the definitions contained in 29 CFR 99.210, a reader of the grant agreement and modification would conclude that the Washington Alliance intended to use subrecipients. However, we found the Washington Alliance has structured its program so that none of its vendors meets the definition of a subrecipient. This approach is inconsistent with the original grant agreement. Specifically, we found the following.

- The Washington Alliance established an admissions committee made up of LIFECARE staff to determine final eligibility and admission to the program after vendors performing professional case management services have processed applicants for the program.
- None of the existing vendor agreements contain either performance goals or performance standards.

Vendor Agreements Circumvent WtW Administrative Cost Limitations

The Washington Alliance's use of vendor agreements allows it to avoid WtW's administrative cost limitations. We believe the failure to report administrative expenditures separately is contrary to the WtW requirements which intend to limit the amount of funds spent on administrative costs.

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The WtW regulations in 20 CFR 645.235 specifically require that recipient or subrecipient costs for overall program management, program coordination, and general administrative functions be charged to the administrative cost category and that the administrative expenditures not exceed 15 percent of the grant award.

Also, the WtW regulations in 20 CFR 645.230 require commercial organizations awarded WtW grant funds to determine allowability of costs in accordance with the provisions of the FARs at 48 CFR Part 31. Specifically, 48 CFR Part 31.201-4 states that a cost is allocable if it is assignable or chargeable to one or more cost categories on the basis of relative benefits received or other equitable relationship.

Each of Washington Alliance's vendor agreements is based upon either a monthly fee or a single unit cost per participant. A vendor agreement for case management services contains administrative costs such as profit, overhead, and indirect costs. The vendor agreements for classroom training did not include project budgets but simply a negotiated fixed fee per participant. The effect of the vendors' single unit/monthly fee charging of all WtW costs to the program or services category is that the Washington Alliance will have no basis for determining if it complies with WtW's administrative cost limitations. Since no cost analysis is available, there is no basis to determine the costs used to compile the fixed fee.

If the negotiated agreement meets the definition of a vendor described in 29 CFR 99.210, the administrative cost limitations of the WtW regulations do not apply. However, if the negotiated agreement meets the definition of a subrecipient described in 29 CFR 99.210 and the activity is consistent with the program design included in the approved grant agreement, the administrative cost limitations cited at 20 CFR 645.235 of the WtW regulations would apply. Therefore, administrative costs including profit, overhead, and indirect costs would have to be separated out and reported as administrative costs.

Recommendation

If our overall recommendation to terminate this grant is not implemented, we recommend that the Assistant Secretary for Employment and Training direct the ETA Grant Officer to require the Washington Alliance to allocate and report all WtW expenditures, both administrative and program, to the benefitting cost categories in accordance with the WtW regulations.

Agency Response

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The Assistant Secretary for Employment and Training's response only addressed our recommendation to terminate the grant.

OIG Conclusion

This recommendation will be closed if the Assistant Secretary for Employment and Training decides to terminate the grant.

3. Vendor Agreements Were Awarded Without Competition and the Reasonableness of their Costs Is Questionable

Our survey of documentation of the Washington Alliance's procurement decisions demonstrates that none of the vendor agreements was the result of open and free competition. We also concluded that the reasonableness of the vendor agreement costs is questionable. These problems occurred because the Washington Alliance's procurement policy does not meet the requirements set forth in the uniform administrative requirements for Federal grants.

Title 29 CFR Part 95 establishes uniform administrative requirements for Federal grants and agreements awarded to commercial organizations. The following sections of 29 CFR Part 95 contain requirements for procurement.

- Competition is one of the standards that is to be used by recipients to establish procedures for procurement actions. Section 95.43 on competition states, "*All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.*"
- Section 95.46 provides the requirements on procurement records and states, "*Procurement records and files for purchases in excess of the small purchases threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.*"
- Section 95.45 requires that some form of cost or price analysis must be made and documented in the procurement file for each procurement action. It defines cost analysis as

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“ . . . the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.”

Vendor Agreements Awarded Without Competition

None of the vendor agreements executed by the Washington Alliance were awarded in an open and free competitive manner. The grantee stated that all vendor agreements were negotiated. The only documentation for selecting the vendors was a one-page internal memorandum with a list of 10 reasons. There was a one-line explanation for each reason. Each reason used to support selecting the vendor was checked and a brief handwritten supplemental explanation, without any supporting documentation, was provided at the bottom of each page. It is our conclusion that this documentation does not meet the procurement standards to justify awards without competition.

Reasonableness of Vendor Costs is Questionable

Our survey of the Washington Alliance’s vendor agreements concluded that the reasonableness of its costs is questionable. We found there was no cost or price analysis conducted.

There were no criteria available to measure whether the vendor costs were reasonable because the agreements were awarded without the benefit of open and free competition, they did not have performance goals or measurable standards, and there was no cost or price analysis. The fact that these vendor agreements lack basic information supporting the costs and the costs may include profit, indirect costs, and administrative overhead, leads us to question their reasonableness. The vendor agreements/subcontracts in question call for:

- S life skills training instructor and associated costs for \$91,750 per year
- S two professional case managers for \$87,714, including overhead and profit, each per year
- S basic computer applications training program for 12 weeks at \$3,000 per person
- S basic telecommunications cable wiring and telephone repair system training program for 12 weeks at \$2,500 per person
- S cost reimbursement contract for \$247,434 for 2 years for professional case management services
- S firm fixed fee contract totaling \$116,064 for 30 months to provide outcomes’ management for quality assurances of case record keeping for the grantee
- S contract, in an undeterminable amount, with LIFECARE for the administration and management of the WtW grant
- S the aforementioned contract signed by the same individual who is both the managing general partner for LIFECARE and the Washington Alliance

Washington Alliance Procurement Policy

The Washington Alliance’s procurement policy does not conform with the uniform administrative requirements. The procurement policy states that, as a commercial organization, LIFECARE, and its affiliated entities, i.e., the Washington Alliance, are not required to follow specific procurement methods, but that procurements should be conducted in a manner designed to provide full and open competition, whenever practicable and possible.

The Washington Alliance, through LIFECARE as the sole general partner, has taken the position that it can operate under the regulations applicable to commercial organizations and that vendors and contractors can be selected based upon business decisions. The LIFECARE general managing partner told us that, while he understands that profit was an unallowable cost at the grantee level under the WtW competitive grant, the Washington Alliance can operate under the regulations applicable for commercial organizations, which are the FARs.

The LIFECARE general managing partner’s understanding of regulations applicable to the WtW competitive grant is incorrect. According to the WtW regulations and ETA guidance provided to grantees, commercial organizations should follow the FARs for cost principles and 29 CFR Part 95 for the uniform administrative requirements.

Recommendations

If our overall recommendation to terminate this grant is not implemented, we recommend that the Assistant Secretary for Employment and Training direct the ETA Grant Officer to require the Washington Alliance to:

1. Terminate all existing vendor agreements that were not awarded based upon open and free competition.
2. Perform and document cost or price analysis for each procurement action.
3. Revise its procurement procedures to require open and free competition for all future procurement transactions.

Agency Response

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The Assistant Secretary for Employment and Training's response only addressed our recommendation to terminate the grant.

OIG Conclusion

The recommendations will be closed if the Assistant Secretary for Employment and Training decides to terminate the grant.

4. Arrangements for Renting Space from the District of Columbia's Department of Employment Services Were Improper

The Washington Alliance's arrangement to rent space from the District of Columbia's Department of Employment Services (DCDOES) at its central office location does not meet the procurement standards in the uniform administrative requirements and the cost principles in the FARs.

According to 29 CFR Part 95.40:

Sections 95.41 through 95.48 set forth standards for use by recipients in establishing procedures for the procurement of supplies and other expendable property, equipment, real property, and other services with Federal funds. These standards are furnished to ensure that such materials and services are obtained in an effective manner and in compliance with the provision of applicable Federal statutes and executive orders.

The FARs at 48 CFR Part 31.201 provide the factors in determining allowability of costs. Two of the factors are reasonableness and allocability. The subpart defines reasonableness as a cost which, in its nature and amount, does not exceed that which would be incurred by a prudent person in the conduct of competitive business. The subpart defines allocability as a cost which is allocable to a Government contract if it is incurred specifically for the contract.

The Washington Alliance's case management unit is located at DCDOES' central office building. However, we found there was no written lease between the Washington Alliance and DCDOES. We were told that there was a verbal agreement, and at DCDOES' request, the Washington Alliance

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purchased office equipment for DCDOES in lieu of paying a monthly rent. DCDOES planned to use the office equipment for non-WtW activities. The WtW funds involved a total of \$13,867. According to DCDOES' officials, DOL owns a 66 percent equity in the land and building at this central office location.

It is our position that entering into a verbal agreement with DCDOES for the use of space does not meet the procurement standards set forth in the uniform administrative requirements. Since there is no evidence that either a cost or price analysis was conducted, we could not determine if the costs were reasonable. And finally, because WtW grant funds were used to purchase furniture for the DCDOES with no plans to be used for the WtW program, the costs are not allocable to the WtW grant.

Recommendations

If our overall recommendation to terminate the grant is not implemented, we recommend that the Assistant Secretary for Employment and Training direct the ETA Grant Officer to:

1. disallow \$13,867 which represents the cost of the office furniture purchased for DCDOES,
2. require the Washington Alliance to perform a cost or price analysis to determine the proper cost of DCDOES space being used by the grantee, and
3. request the ETA regional office provide technical assistance to both the Washington Alliance and DCDOES in negotiating an acceptable lease for the use of office space presently occupied by WtW staff.

Agency Response

The Assistant Secretary for Employment and Training's response only addressed our recommendation to terminate the grant.

OIG Conclusion

The recommendations will be closed if the Assistant Secretary for Employment and Training decides to terminate the grant.

5. The Reasonableness of the Washington Alliance's Staff Salaries is Questionable

The Washington Alliance does not have an established compensation plan upon which to base the salary levels included in the WtW grant. Therefore, we could not determine if the salary charges to the WtW grant were reasonable.

The FARs, at 48 CFR 31.205-6 ("Compensation for Personal Services") states, "*compensation must be based upon and conform to the terms and conditions of the contractor's established compensation plan or practice followed so consistently as to imply, in effect, an agreement to make payment.*"

In determining reasonableness, 48 CFR 31.205-6 states, "*factors which may be relevant include general conformity with the compensation practices of other firms of the same size, the compensation practices of firms in the same industry, the compensation practices of firms the same geographic area, the compensation practices of firms engaged in predominantly non-government work, and the cost of comparable services obtainable from outside sources.*"

The Washington Alliance's managing general partner provided us with a one-page explanation and justification for staff salaries which was based upon his experience. However, this explanation and justification do not provide either the documentation or the specific examples necessary to support the salary levels included in the grant budget.

LIFECARE, under the terms of the limited partnership, is totally responsible for the overall administration of the Washington Alliance WtW grant. The Washington Alliance allowed LIFECARE's managing general partner arbitrarily to establish salary levels for his senior managers based upon their experience and qualifications. The managing general partner's justification stated that since all of his senior managers are either retired Federal employees or retired/former executives with private sector companies, their salary levels are established at \$53 per hour. This hourly wage could result in an annual salary of \$110,000 a year. We found that 6 of the 10 staff hired are being paid at this hourly wage.

Recommendation

If our overall recommendation to terminate this grant is not implemented, we recommend that the Assistant Secretary for Employment and Training direct the ETA Grant Officer to require the Washington Alliance to develop a compensation plan that fully demonstrates the reasonableness of the

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salary levels and adjust the salaries in the grant budget to reflect the compensation plan.

Agency Response

The Assistant Secretary for Employment and Training's response only addressed our recommendation to terminate the grant.

OIG Conclusion

This recommendation will be closed if the Assistant Secretary for Employment and Training decides to terminate the grant.

6. Enrollment Levels are Low Compared to Goals

The number of participants enrolled in the Washington Alliance's WtW program is significantly low compared to its goals. The Washington Alliance's goal was to enroll 515 participants by March 31, 2000, however, as of December 31, 1999, only 98 participants have been enrolled. This can be attributed, in part, to the lack of a mechanism to ensure that sufficient referrals of eligible participants are received from the local welfare agency. As of December 31, 1999, the Washington Alliance expended \$790,998 in WtW grant funds, which represents an average cost of \$8,071 per participant served.

According to the June 24, 1999, grant award modification, the Washington Alliance's intake process is governed by a Memorandum of Understanding (MOU) it was negotiating with the District of Columbia's Department of Human Services (DCDHS). The importance in executing this MOU is significant because the DCDHS has a contractual relationship with outside organizations to provide employment services to all nonexempt TANF recipients. The effect of this relationship is that DCDHS contractors have almost an exclusive right of referral of all TANF recipients. This leaves the Washington Alliance "out of the loop" if an effective arrangement is not made to receive referrals of TANF recipients.

DCDHS has agreed to encourage its contractors to refer eligible TANF recipients to the Washington Alliance to receive vocational education, on-the-job-training, career counseling, and job placement

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services. However, no formal MOU has been finalized with the DCDHS. The grantee's inability to reach a formal agreement with the DCDHS and/or to develop an effective outreach program that identifies and recruits WtW eligible applicants will greatly diminish the grantee's ability to meet the performance schedule included in its grant agreement.

Recommendation

If our overall recommendation to terminate the grant is not implemented, we recommend that the Assistant Secretary for Employment and Training direct the ETA Grant Officer to require the Washington Alliance to provide credible evidence to demonstrate how it will meet its scheduled enrollment level of 515 participants as of March 31, 2000.

Agency Response

The Assistant Secretary for Employment and Training's response only addressed our recommendation to terminate the grant.

OIG Conclusion

This recommendation will be closed if the Assistant Secretary for Employment and Training decides to terminate the grant.

7. The Washington Alliance Does Not Have a Fidelity Bond for its WtW Competitive Grant

No fidelity bond has been purchased for the Washington Alliance WtW competitive grant to cover the Government's \$5 million interest in the grant award.

The Washington Alliance is a limited partnership, with LIFECARE's managing general partner acting as the managing general partner for the Washington Alliance. LIFECARE is a commercial, private, for-profit organization which is responsible for the administration and management of this \$5 million WtW grant. There is no fidelity bonding requirement under this grant.

The administrative structure of the Washington Alliance, as well as its limited history in administering

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Federal grants, clearly demonstrates that it is in the Federal Government's best interest to require fidelity bonding coverage under this grant.

Title 29 CFR 95.21 (d) states that DOL may require adequate fidelity bond coverage where the recipient lacks sufficient coverage to protect the Federal Government's interest. The cost of bonding pursuant to the terms of the contract is an allowable cost under 48 CFR 31.205-4 (b).

The result of our survey demonstrates that this is a high-risk grant because the Washington Alliance's organizational structure and program operations do not agree with what was represented in the grant agreement, procurement actions were not done with free and open competition, enrollment levels are low, and documentation is insufficient to support the reasonableness of grant costs. Therefore, it is appropriate that adequate fidelity bond coverage be obtained to protect the Federal Government's interest.

Recommendation

If our overall recommendation to terminate this grant is not implemented, we recommend that the Assistant Secretary for Employment and Training direct the ETA Grant Officer to require the Washington Alliance to purchase a fidelity bond in a predetermined amount to cover the Federal Government's interest in this WtW grant.

Agency Response

The Assistant Secretary for Employment and Training's response only addressed our recommendation to terminate the grant.

OIG Conclusion

This recommendation will be closed if the Assistant Secretary for Employment and Training decides to terminate the grant.

APPENDIX - AGENCY'S RESPONSE TO DRAFT REPORT