

U.S. Department of Labor
Office of Inspector General
Office of Audit

Audit of
Ohio's Workforce Investment Program
Audit Period: July 1, 2000 through June 30, 2002

Report Number: 05-04-004-03-390
Date Issued: March 31, 2004

Table Of Contents

	<u>Page</u>
Executive Summary	1
Audit Results	3
Findings and Recommendations	
1. Inadequate Accounting System Controls Resulted in Financial Status Reports Not Accurately Reflecting Financial Operations.....	4
A. PY 2000 Statewide Activities Costs Exceeded the Administrative Cost Limitation	4
B. Local Administrative Costs Were Reported as Program Costs	7
C. Financial Records Did Not Support All Expenditures Claimed on the FSRs	8
2. Lack of Management Controls Over the Time Reporting System Reduces the Reliability of Time Records	10
3. Inadequate Participant Activity Reporting System Resulted in Unreliable Participant Activity Reports	12
4. Improper Designation of LWIA Number 7	14
5. Performance Measures Not Negotiated With LWIAs	16
6. Lack of Required Partners and Core Services at Some Comprehensive One-Stops	18
Exhibits	
A. Evaluation of Ohio’s Implementation of WIA	21
B. Assessment of Corrective Actions Taken by ODJFS on Issues Cited by ETA.....	23
Appendices	
A. Background and Criteria.....	33
B. Objectives, Scope, and Methodology	35
C. State of Ohio Workforce Investment Areas.....	38
D. Summary of Financial Status Reports as of June 30, 2002	39
E. Acronyms/Abbreviations	40
F. Ohio’s Response to Draft Report	41

Executive Summary

The Office of Inspector General conducted a performance audit of Ohio's implementation of the Workforce Investment Act of 1998 (WIA). The Ohio Department of Job and Family Services (ODJFS), which administers the WIA program for Ohio, reported expenditures of \$156 million out of \$240 million authorized to operate the program for the period July 1, 2000 through June 30, 2002.

Our objectives were to:

- determine compliance with critical provisions of WIA, and
- assess the corrective actions taken by Ohio to address issues cited by the Employment and Training Administration (ETA).

Exhibit A summarizes Ohio's implementation of 17 critical provisions of WIA. Only seven of these elements were in full compliance with WIA more than 2 years after they were to be in place. **Exhibit B** details the status of corrective action on 40 issues identified by ETA in October 2001 after reviewing Ohio's program. Only 15 (37.5 percent) of these issues were completely corrected at the end of our audit fieldwork in November 2002. While completing these assessments, we identified questioned costs of \$9.3 million and the following instances of material noncompliance with WIA and significant weaknesses in management controls:

- Inadequate accounting system (Finding 1)
- Lack of controls over the time reporting system (Finding 2)
- Inadequate participant activity reporting system (Finding 3)
- Improper designation of local areas (Finding 4)
- Performance measures not properly negotiated (Finding 5)
- Missing partners and incomplete services at Comprehensive One-stops (Finding 6)

We issued a discussion draft report to ODJFS on September 30, 2003, and subsequently conducted an exit conference on October 28, 2003. ODJFS provided documentation regarding corrective actions it had taken in response to the findings we reported in our discussion draft. Based on this information, we have resolved or closed findings and recommendations where appropriate. We also determined that Ohio was in compliance with one additional critical provision of WIA (for a total of eight). We updated our assessment of the status of corrective actions on the 40 issues identified by ETA in its October 31, 2001 letter to -- 16 (40 percent) have been completed, 12 (30 percent) are pending, and 12 (30 percent) have not been resolved.

After considering ODJFS's corrective actions, the following recommendations remain outstanding, and, therefore, we recommend that the Assistant Secretary for Employment and Training:

- ensure ODJFS submitted a Financial Status Report (FSR) for the period ending September 30, 2002, that reduces administrative costs claimed to an amount within the administrative cost limitation;
- direct ODJFS to improve accounting controls to ensure the administrative cost limitation is not exceeded;
- direct ODJFS to implement procedures to ensure employees and coordinators are complying with guidelines for the Random Moment Sampling (RMS) time studies;
- direct ODJFS to reconfigure Local Workforce Investment Area (LWIA) Number 7; and
- direct ODJFS to provide the required partners and core services at Comprehensive One-stops.

ODJFS officials response to our draft report indicated that they were in overall agreement with our findings and recommendations, and identified steps they have taken or plan to take to address the recommendations. ODJFS officials provided their response to each finding as part of a copy of the entire report narrative. Therefore, we have not provided the state's response as an attachment. We have included their responses within each finding in the report.

Audit Results

After 2 years of operation, Ohio's Workforce Investment Act (WIA) program was still not fully implemented or in compliance with program requirements. The program had material weaknesses in 41 percent of the elements that the Department of Labor's (DOL) Employment and Training Administration (ETA) considered necessary for a fully implemented WIA system. Those deficiencies resulted in inaccurate accounting and reporting, unreliable participant activity reporting, and inefficient delivery of services. Also, a year after ETA had issued a monitoring report, Ohio had not completed corrective actions related to 25 issues of noncompliance or nonperformance. ETA should require Ohio to identify specific actions and completion dates for implementation of all program elements and correction of previously identified deficiencies.

On June 13, 2000, ETA issued guidance to all states listing 17 elements of a fully implemented WIA System. We evaluated Ohio's compliance with these critical provisions of the WIA program. Ohio was in compliance with only seven of these elements. We found material deficiencies in Ohio's program pertaining to seven elements; these are addressed in our six **Findings and Recommendations**, beginning on page 2. We discussed minor concerns pertaining to the remaining three elements with Ohio management during fieldwork. **Exhibit A**, beginning on page 19, details our evaluation of each of the 17 elements.

On October 31, 2001, officials in the ETA Chicago Region issued a letter to the Ohio Department of Job and Family Services (ODJFS) outlining areas of noncompliance and non-performance in operating the Ohio WIA program. ODJFS began a series of corrective actions to address the deficiencies cited by ETA and provided ETA with progress reports detailing its efforts to correct the areas of noncompliance and nonperformance. We assessed the status of corrective actions on 40 issues identified by ETA. Of these items, only 15 (37.5 percent) had been completed, 13 (32.5 percent) were pending, and 12 (30 percent) had not been resolved. **Exhibit B**, beginning on page 21, details our assessment and status of each of the ETA reported issues.

We issued a discussion draft report to ODJFS on September 30, 2003, that identified \$9.3 million in questioned costs and five administrative findings. We subsequently conducted an exit conference on October 28, 2003. ODJFS provided documentation regarding corrective actions it had taken in response to the findings we reported in our discussion draft. Based on this information, we have resolved or closed findings and recommendations where appropriate. We also determined that Ohio was in compliance with one additional critical provision of WIA (for a total of eight). We updated our assessment of the status of corrective actions on the 40 issues identified by ETA in its October 31, 2001 letter to -- 16 (40 percent) have been completed, 12 (30 percent) are pending, and 12 (30 percent) have not been resolved.

Findings And Recommendations

The Ohio Department of Job and Family Services (ODJFS) had not fully complied with all the critical provisions of WIA more than 2 years after they were to be in place. ODJFS's financial and participant reporting systems provided unreliable data and did not accurately reflect financial operations or program outcomes. Our audit of the WIA program disclosed several factors that impacted ODJFS's ability to administer the WIA program, as noted in the following findings and recommendations:

1. Inadequate Accounting System Controls Resulted in Financial Status Reports Not Accurately Reflecting Financial Operations

ODJFS submitted Financial Status Reports (FSRs) that did not accurately reflect its financial operations. The ODJFS accounting system lacked controls to produce accurate FSRs. As a result:

- Program Year (PY) 2000 Statewide Activities costs exceeded the administrative cost limitation; (\$1,150,441)
- Local administrative costs were reported as program costs; (\$7, 274,396) and
- Financial records did not support all expenditures claimed on the FSRs. (\$917,376)

Section 667.200 of Code of Federal Regulations (CFR) 20 states:

. . . . States,. . . that receive grant or cooperative agreements under WIA Title I must follow the common rule . . . which is codified at 29 CFR Part 97.

Section 97.20(a) of CFR 29 states:

(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with financial reporting requirement of the grant or subgrant.

A. PY 2000 Statewide Activities Costs Exceeded the Administrative Cost Limitation

ODJFS's lack of controls in its accounting system allowed administrative costs incurred at the state level to be reported in excess of the allowable amount. WIA mandates that no more than one third (.05/.15) of the authorized funding for statewide activities be used for administrative expenses.

Section 667.210 of CFR 29 states:

(a) Formula grants to States:

(1) As part of the 15 percent that a State may reserve for Statewide activities, the State may spend up to five percent (5%) of the amount allotted . . . for the administrative costs of Statewide workforce investment activities.

Our review of PY 2000 statewide activities revealed ODJFS exceeded the limitation for administrative costs, as calculated below:

PY 2000 Statewide Activities Authorization	\$ 9,297,410
Administrative Costs Reported On FSR	\$ 4,249,578
Administrative Cost Limitation (\$9,297,410 X 33%)	3,099,137
Exceeded Allowable Amount	\$ 1,150,441

When Ohio merged two departments (Ohio Bureau of Employment Services (OBES) and Ohio Department of Human Services (ODHS)), ODJFS's WIA program began participating in large cost pools, which included many shared expenses involving several bureaus and offices. Although WIA's overall percentage of the pool was small, the effect on the WIA program budget was significant and resulted in WIA administrative expenses exceeding the amount allowable under the law.

Additionally, during the initial implementation of WIA, ODJFS's accounting system was not designed to track administrative costs separately from program costs. However, several months after the program started, the State modified its accounting system to separately identify administrative costs. Even though the State began capturing and tracking administrative costs, it did not strengthen controls to ensure that reported costs did not exceed the cost limitations.

In response to the \$1,150,441 questioned costs in our discussion draft report and our exit conference, ODJFS officials provided a FSR for the period ending September 30, 2002, which showed that administrative costs claimed had been reduced to \$3,099,137 in accordance with the administrative cost limitation. However, ODJFS still needs to implement controls to preclude future charges from being reported that are in excess of allowable amounts.

Recommendations:

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

(1) ODJFS has submitted a FSR for the period ending September 30, 2002, that reduces administrative costs claimed to an amount within the administrative cost limitation, and (2) ODJFS has implemented controls to preclude charges from being reported that are in excess of allowable amounts.

State Response:

The state acknowledged that the PY 2000 administrative funding filed as of June 30, 2002, exceeded the 5 percent limitation. The state corrected its filing methodology for the 5 percent and 10 percent administrative funding effective with the September 30, 2002, quarterly reports.

Auditor's Conclusion:

We reviewed ODJFS's September 30, 2002, FSR which reduces administrative costs for PY 2000 by \$1,150,441 and consider the questioned costs related to recommendation (1) to be resolved. To close this recommendation, ETA officials need to notify us that they have reviewed and approved the revised September 30, 2002, FSR. ODJFS provided no evidence that controls have been implemented to preclude future charges from being reported that are in excess of allowable amounts; consequently, recommendation (2) remains unresolved.

B. Local Administrative Costs Were Reported as Program Costs

ODJFS's lack of control over expenditure reporting permitted administrative costs to be incorrectly reported as program costs. ODJFS's financial system routinely allocated sub-recipients administrative costs to program costs.

Section 667.220 of CFR 20 requires any costs associated with the general administrative functions and the coordination of those functions be charged to administration and subject to the administrative cost limitations. Our review of ODJFS's financial records revealed that shared costs such as salaries, rent, supplies, etc. for the subrecipients' administrative staff were pooled and then distributed to program categories.

We determined that the following administrative costs were misclassified as program costs through June 30, 2002.

Program	Administrative Costs Reported as Program Costs
Youth	\$1,828,508
Adult	3,718,602
Dislocated Worker	1,727,286
TOTAL	\$7,274,396

According to ODJFS staff, the State did not have a mechanism for charging local administrative costs. As a result, administrative costs were charged to program costs through the Social Services Apportioned Cost based on full-time equivalent positions.

In response to \$7.2 million questioned in our discussion draft report, ODJFS officials provided accounting records for the period ending June 30, 2003. Although our audit period ended June 30, 2002, we examined the more current information. The June 30, 2003, records provided reflect that local administrative costs are being properly charged to the FSRs. Since WIA is a multi-year funded program and the amount shown for June 2003 is cumulative, which includes June 30, 2002 costs, we are satisfied that June 30, 2002 charges are corrected and administrative costs are now being properly charged. This finding is resolved and closed.

C. Financial Records Did Not Support All Expenditures Claimed on the FSRs

ODJFS's lack of controls for reporting expenditures allowed costs to be reported that were not supported by its financial records. Our review disclosed that financial records did not support \$917,376.

Section 97.20(b)(1) of CFR 29 states:

Financial Reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made. . . .

During the initial phase of the WIA program, ODJFS faced several challenges as a result of the merger of two agencies (ODHD and OBES) and the implementation of a new financial and reporting structure to address WIA reporting requirements. ODJFS procedures direct counties and the City of Cleveland to report expenditures using the Central Office Reporting System (CORE). Although WIA requires expenditures to be reported by Federal appropriation year, counties were reporting expenditures to the ODJFS based on the State fiscal year. Consequently, when ODJFS received the expenditure amounts, it was difficult to associate the expenditures with the appropriate Federal appropriations. ODJFS recognized the problem and took steps to remedy it in the latter part of Calendar Year 2001 by reconstructing expenditures from the beginning of the program and making some design changes to the CORE. The reconstructed expenditures differed from the original amount reported, thereby necessitating adjustments to the financial data.

WIA is a multi-year funded program and states are encouraged to use the earliest appropriation first. ODJFS attempted to apply the "first-in first-out" (FIFO) method to expenditures by reviewing the earliest appropriations to determine if the funding authorization had been exhausted.

ODJFS made numerous transfers and adjustments in an effort to use the FIFO method to report expenditures and correct amounts previously reported. Our review disclosed that transfers, adjustments and the movement of expenditures from one appropriation to another resulted in some appropriations having less costs than what was reported while others exceeded the amount reported. Other factors that contributed to the differences included posting errors and ODJFS adapting to WIA reporting requirements. The chart on the following page depicts the programs and funding years in which we noted differences resulting from posting errors and transfers.

Program	Funding Year	Expenditure Reported per FSR	Expenditures Per Accounting Records	Difference
Statewide Activities	FY 2001	\$ 4,155,616	\$ 3,952,339	\$ 203,277
Rapid Response	PY 2000	1,678,019	325,779	1,352,240
Local Admin	PY 2000	4,930,350	4,009,653	920,697
Local Admin	FY 2001	3,202,500	2,887,635	314,865
Local Admin	PY 2001	4,360,963	2,624,905	1,736,058
Local Admin	FY 2002	1,343,708	1,501,272	(157,564)
Youth	PY 2000	30,726,088	31,053,532	(327,444)
Youth	PY 2001	18,482,618	17,428,316	1,054,302
Adult	PY 2000	7,184,548	6,104,852	1,079,696
Adult	FY 2001	21,117,071	21,580,146	(463,075)
Adult	PY 2001	8,267,555	13,077,271	(4,809,716)
Adult	FY 2002	9,189,635	7,346,784	1,842,851
Dislocated Worker	PY 2000	6,044,125	3,129,831	2,914,294
Dislocated Worker	FY 2001	10,687,934	12,013,932	(1,325,998)
Dislocated Worker	PY 2001	4,788,159	9,444,839	(4,656,680)
Dislocated Worker	FY 2002	5,632,190	4,392,617	1,239,573
TOTAL		\$141,791,079	\$ 140,873,804	\$ 917,376

Certain WIA expenditures are allowable under different appropriations. We believe that some of the expenditures reported in excess of the amount supported by the accounting records are allowable under other appropriations where accounting records show more than the reported amount. Therefore, we are only concerned about the net difference of \$917,376.

Following our discussion draft report, which questioned the \$917,376, and our exit conference, ODJFS officials provided financial records ending in June 30, 2003, which they believe demonstrate that ODJFS financial records reconcile with the FSR. We reviewed the documentation provided and found that the June 30, 2003 records reconciled. Because WIA is a multi-year funded program and the amount shown for June 2003 is cumulative, which encompasses June 30, 2002 costs, we are satisfied that the necessary adjustments affecting the program funding listed above have been addressed. This finding is resolved and closed.

2. Lack of Management Controls Over the Time Reporting System Reduces the Reliability of Time Records

Some LWIAs employees were not completing time studies in accordance with guidelines. Time studies are ODJFS's mechanism for allocating employees' payroll costs to the various program activities. Under WIA, payroll costs account for the bulk of the costs associated with administering the grant. Using incorrect time application will result in improper allocation of costs to DOL grants.

Office of Management and Budget (OMB) Circular A-87 provides several substitutes for activities reports to measure employment efforts and allocate salaries and wages. Under the Compensation for Personnel Services Section, OMB identifies Random Moment Sampling (RMS) as an acceptable and quantifiable method to measure employment efforts. ODJFS uses RMS in accordance with the OMB directive.

Time studies referred to as RMS are used by ODJFS to measure subareas' staff activities for various programs. The time studies are completed on a quarterly basis and the number of time studies completed varied based on the number of the organization's employees that needed to be included in the time studies. ODJFS uses data collected from the time studies to calculate the percentage of time spent on each program. The percentages are then used to distribute funds to the various programs and activities. Time studies are performed through observation forms that are distributed to selected workers.

ODJFS's Administrative Procedure Manual for the time studies requires the observation form to be distributed to the selected worker at or near the moment specified in the sample. ODJFS provides some flexibility by allowing the forms to be distributed in the morning. However, selected workers are required to complete the form at the moment recorded on the observation form.

Our review disclosed instances where the forms were completed well after the time recorded on the observation form. We audited time studies for staff at the three sites visited whose job responsibility includes servicing WIA participants. Our audit entailed selecting a time of day to review the observation forms and ascertaining whether the form should have been completed at the time of the evaluation. We found that:

- At one of the LWIAs, the RMS Time Study Coordinator attended a job fair the day we reviewed the RMS system and had not distributed the observation forms when we went to perform the evaluation. However, the forms were distributed later that day when she returned. Nevertheless, the moment the form needed to be completed had passed for 8 of the 10 workers selected. We repeated the test the following day and all the forms appeared to be completed according to guidelines.
- At one of the subareas, neither of the two workers selected completed the forms in accordance with guidelines. One had missed the designated time by 40 minutes while the other missed the time by three and a half hours.

We believe that both instances occurred because there was a lack of proper oversight by management personnel to ensure that employees were timely receiving and completing the observation forms.

The purpose of time studies is to generate accurate statistics for work performed by the agency so the data can be used to allocate cost pools. However, because the system accuracy is predicated on employees recording their work activities at or near the moment the form specifies, using incorrect time application will result in improper allocation of costs to DOL grants.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training direct ODJFS to implement procedures to perform unannounced reviews of the observation forms to ensure employees and coordinators are complying with the Administrative Procedure Manual guidelines for the RMS time studies.

State Response:

ODJFS officials stated they appreciate this recommendation and intend to implement procedures to ensure the recommendation is followed.

Auditor's Conclusion:

ODJFS officials stated their general agreement with the recommendation but provided no description of their intended procedures nor a timeline for implementation. Our recommendation remains unchanged.

3. Inadequate Participant Reporting Activity System Resulted in Unreliable Participant Activity Reports

ODJFS's participant activity reporting system was flawed, causing it to produce inaccurate and unreliable information. Consequently, data did not correctly measure the effectiveness of the WIA program.

Section 667.300 of CFR 20 states:

- (a) General. All States and other direct grant recipients must report financial, participant, and performance data . . .
- (e) Annual performance progress report. An annual performance progress report for each of the three programs under Title I, subpart B is required . . .
 - (2) States submitting annual progress reports that cannot be validated or verified as accurately counting and reporting activities . . . may be treated as failing to submit annual reports, and be subject to sanctions.

The above regulation requires each State to collect and report participant and performance data for each of the three WIA programs (Youth, Adult, and Dislocated Workers). States are also required to submit an annual performance progress report.

Although ODJFS submitted data for participant activities for PYs 2000 and 2001 in accordance with Federal requirements, the data was unreliable because the system producing the data was flawed. We reviewed 15 case files at each of the three sites visited and noted differences between the files reviewed and the participant activity reports. State officials acknowledged problems with the system, such as lack of data input by the counties, and data fields changing without explanation. ETA also recognized problems with the data and annotated its certifications to the National Office that the data was being certified even though the reliability of the data was being questioned. Also, ODJFS is at risk of sanctions because of the inaccurate participant information.

According to the State of Ohio Workforce Investment Act Title I-B Annual Report, ODJFS utilized the OhioWorks/ServiceLink system as its primary participant data collection system. OhioWorks was originally developed as an Internet-based system that matched welfare recipients to employers. ODJFS modified the OhioWorks system to meet the Federal data collection and reporting requirements of WIA. The internal segment of OhioWorks consisted of an application named ServiceLink. ServiceLink provided case management support for counties, as well as data collection and reporting for WIA. In an effort to make it easier for WIA data entry, ServiceLink was further modified to create an application called QuickLink.

After several unsuccessful efforts to make QuickLink comply with the WIA data collection and reporting requirements, ODJFS decided to abandon QuickLink for another participant information system labeled Share Career Operation Training Information (SCOTI) system.

ODJFS believes SCOTI will comply with WIA's reporting requirements when fully implemented. SCOTI is a database system designed to support both WIA and Labor Exchange activities in Ohio, and provide Federal mandated reports for each program. During our fieldwork, we were informed that the ODJFS was in the final stage of implementing SCOTI. Until SCOTI is fully developed and implemented, Ohio participant information will be susceptible to data integrity problems and will not accurately portray the State's performance.

ODJFS officials provided an update on the progress of implementing SCOTI during our exit conference in response to our discussion draft report. ODJFS officials stated that SCOTI is fully implemented statewide and LWIAs have been working with converted files certifying their accuracy. ODJFS officials indicated that the accuracy of performance data for PY 2002 was validated and they were attempting to validate 2001. However, ODJFS has no plans to validate PY 2000 performance data. ODJFS officials provided a memo from Social Policy Research Associates (SPR), which stated that SRP assisted in verifying the accuracy of the system's calculation of performance measures. The data was from an extraction of SCOTI for the period March 2003 through June 2003. SPR concluded that there were no inconsistencies in the data verified.

Based on our review of the information provided by ODJFS, we consider the finding resolved and closed.

4. Improper Designation of LWIA Number 7

WIA requires the Governor of each state to designate local workforce investment areas within the state. LWIAs could be designed as General, Automatic, or Temporary. In making a General designation, WIA Section 116 (1) (B) mandates certain factors be considered so that services in local workforce investment areas are accessible to its citizens:

- (i) Geographic areas served by local educational agencies and intermediate educational agencies.
- (ii) Geographic areas served by postsecondary educational institutions and area vocational education schools.
- (iii) The extent to which such local areas are consistent with labor market areas.
- (iv) The distance that individuals will need to travel to receive services provided in such local areas.
- (v) The resources of such local areas that are available to effectively administer the activities carried out under this subtitle.

LWIA Number 7 was designated under the General designation, and encompasses 78 counties and two major cities (see Appendix C), which includes geography ranging from Ohio's most populous city to some of its most rural farmland and mining towns. With this large disparity of economic and industry base, there is little consistency between labor markets.

We noted that ETA had major concerns with the configuration of LWIA Number 7. In a letter dated October 31, 2001, ETA stated, in part:

The current . . . Area #7. . . doesn't conform to any common-usage meaning of "local".

We also noted during our review that ODJFS management acknowledged that the statewide system originally configured in Ohio was not entirely consistent with the intent of the Act, and ODJFS staff indicates that they are making incremental modifications to the system. We believe that ODJFS' willingness to work with ETA in an effort to comply with the intent of the Act is a positive step and should be pursued to the fullest.

During our exit conference, ODJFS officials provided timelines for reconfiguring LWIA Number 7 to comply with the Act by July 1, 2004. The timelines included dates for coordinating board meetings, meeting with Chief Elected Officials, developing Local Regional One-Stop plans, policies, agreements, and signing of Grant agreements. We believe that ODJFS should achieve full compliance if it adheres to the timelines and execute all actions as planned by July 1, 2004.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training ensure that ODJFS adheres to its timeline for reconfiguring LWIA Number 7 to comply with the Act.

State Response:

ODJFS is on target with the timeline presented to OIG officials during the exit conference and expects to complete the tasks as defined.

Auditor's Conclusion:

This recommendation remains unresolved until evidence of corrective action is provided to ETA.

5. Performance Measures Not Negotiated With the LWIAs

ODJFS did not negotiate performance measures with the LWIAs, thereby denying local officials the opportunity to consider their economic situation and make realistic assessments of their ability to achieve certain performance measures. Furthermore, ODJFS established performance measures for local areas that they could not achieve, placing Ohio and its LWIAs in jeopardy of sanctions.

During PYs 2000 and 2001, ODJFS required the LWIAs to meet the same performance measures the State negotiated with ETA. In a letter dated June 8, 2000, ODJFS officials wrote:

The (USDOL) recently approved Ohio's baseline data and proposed levels of performance for Program Years 2000 through 2003. We will be passing down the State negotiated level of performance to the Workforce Investment Area and/or Sub Area (WIA/SA). The State's negotiated level of performance is for the first three years of the Workforce Investment Act (WIA). For these reasons, Ohio has decided not to negotiate levels of performance with each Workforce Investment Area and/or Sub Area (WIA/SA).

WIA, Section 136(c), states:

(2) LOCAL LEVEL OF PERFORMANCE. – The local board, the chief elected official and the Governor shall negotiate and reach an agreement on the local levels of performance based on the State adjusted levels of performance established under subsection (b).

(3) DETERMINATIONS. – In determining such local levels of performance, the local board, the chief elected official, and the Governor shall take into account the specific economic, demographic, and other characteristics of the populations to be served in the local area.

According to ODJFS officials, WIA did not define negotiation, and the Job Training Partnership Act (JTPA) data used to negotiate the State measures is the same data available at the local level. The State data is an aggregate of the local areas data. Furthermore, because the State had committed to the performance measures, local areas could not negotiate lower measures or it would be impossible for the State to meet its commitment. Moreover, the local areas did not object to the performance measures.

We believe the provisions as described above clearly indicate that the intent of the Act was for local officials to be more involved in establishing achievable performance standards. More importantly, the measures were to be used as a foundation to build upon.

Under WIA, sanctions occur if a state fails to meet its goals. ETA guidelines set sanctions at performance below 80 percent of negotiated performance level. The State of Ohio passed

this requirement down to the LWIA. Our review of the LWIAs achievements¹ disclosed that they had difficulties meeting the performance standards placed on them.

For PY 2000, 6 of Ohio's 7 LWIAs failed to achieve 80 percent for 6 or more of the 17 established performance measures. Likewise, all of Ohio's LWIAs failed to obtain 80 percent for seven or more of the performance measures in PY 2001. We further analyzed PY 2001 performance for LWIA number 7, which consists of 68 subareas. We selected 25 of the 68 subareas and found that 20 of the 25 failed to achieve 80 percent on 10 or more of the performance measures.

Since local officials are more knowledgeable about economic conditions affecting their area and their ability to reach performance levels, they should have an active role in establishing performance measures. Furthermore, WIA was designed on the premise of significant local involvement. LWIAs need realistic measures to succeed and for Ohio to avoid sanctions in the future.

During our exit conference, we were given documentation showing that ODJFS provided local areas an option to adopt the same performance level as the State or submit alternate levels of performance. Those areas that chose to adopt the state performance levels were required to provide their decision in writing. According to ODJFS officials, no local area requested a negotiation or change of the stated goals. ODJFS officials believe their efforts comply with the WIA requirements. We agree. However, until letters are provided from local areas accepting the same performance level, this finding is unresolved.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training ensure ODJFS received letters from local areas showing their intentions to adopt the same performance level, or evidence that it negotiated with the local areas to adapt alternate levels of performance.

¹ Participant activity data provided by ODJFS was used for our analysis even though we have concerns regarding the data's integrity as noted in Finding Number 3.

6. Lack of Required Partners and Core Services at Some Comprehensive One-Stops

Our review disclosed that some of the comprehensive one-stops were missing required partners and core services, which hampered the integration of services at the local level.

Section 662.100 of CFR 29 states:

(a) In general, the One Stop delivery system is a system under which entities responsible for administering separate workforce investment, educational, and other human resources programs . . . collaborate to create a seamless system of service delivery that will enhance access to the programs’ services. . . .

(c) The system must include at least one comprehensive physical center in each local area that must provide the core services . . . and must provide access to other programs and activities carried out by the One-Stop partners.

Information we collected indicates that ODJFS has not aggressively encouraged or supported all its LWIAs in establishing Comprehensive One-Stops that contain all required partners core services. The chart below depicts the missing partners at four of the eight LWIAs’ Comprehensive One-stops that we did not perform a site visit.

WORKFORCE INVESTMENT AREA	MISSING PARTNERS
LWIA Number 2	Rehabilitation Act Programs
	Community Service Block Grant Employment and Training
	Housing and Urban Development Employment and Training
	Job Corps
LWIA Number 4	Senior Community Services
	Community Service Block Grant Employment and Training
	Housing and Urban Development Employment and Training
	Unemployment Insurance
LWIA Number 6	Rehabilitation Act Programs
	Unemployment Insurance
LWIA Number 8	Wagner-Peyser
	Trade Adjustment Act and North American Free Trade Agreement
	Unemployment Insurance

During our audit we visited LWIA Number 3 and evaluated its One-Stop operation. LWIA Number 3's Plan, and its Memorandum of Understanding (MOU), by reference to the local plan, states:

At the One-Stop Career Center, access to the programs of all required partner entities will be ensured through co-location of partner agency personnel.

Although LWIA Number 3's local plan outlined co-location, some partners only made periodic visits or conducted workshops. We believe this process falls short of the intent of LWIA Number 3's plan.

The table below illustrates the level of involvement of the deficient partners:

Deficient Partners	Limited Involvement In One-Stop System*
Programs authorized under Wagner-Peyser	Present one day a week. No electronic connection.
Rehabilitation Act programs	Conduct workshops at the One-Stop
Local veteran's employment representatives and disabled veterans outreach programs	Conduct workshops at the One-Stop and bring toiletries for homeless veterans.
Community Services Block Grant Employment and Training activities	No direct involvement. The One-Stop make some referrals.
Programs authorized under Ohio unemployment compensation laws	Staff comes once per week to show customers how to fill out an unemployment form.
Temporary Assistance for Needy Families (State Mandated)	None

* Represents status at the completion of audit fieldwork in November 2002.

While analyzing other One-Stops, we were informed by LWIA Number 8's staff that the One-Stop Center refers customers to the employment security office 40 miles from the One-Stop Center. Also, other LWIAs One-Stop Centers' staff informed us that they refer customers directly to the local offices of WIA partners because their partner staff only works at the One-Stop Center once a week or once a month, or some other part-time arrangement.

The One-Stop system concept is predicated on unifying numerous training, education, and employment programs into a single, customer friendly system. However, because all of the WIA required partners' core services are not present at the One-Stop Center, the One-Stop is not effectively streamlining services through better integration at the street level.

ODJFS needs to do more within the framework of the Act to maximize the accessibility of resources for individuals seeking assistance and create a seamless system of service delivery.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training direct ODJFS to bring its LWIAs' Comprehensive One-Stops in compliance with WIA requirements.

State Response:

ODJFS has developed a One-Stop certification process and has provided extensive technical assistance to ensure that the One-Stops will have an effective system of delivery to its customers. The certification guide details all the elements necessary to be in compliance with WIA.

Auditor's Conclusion:

This recommendation remains unresolved until ETA is provided evidence the One-Stops are in compliance with WIA requirements.

Evaluation of Ohio's Implementation of WIA

Elements Of A Fully Implemented WIA System (ETGL 15-99)	OIG Assessment As of October 2003
1. State Board Has Been Appointed And Is Operational	<u>IN COMPLIANCE.</u> The composition of the State Board was in accordance with WIA.
2. All Local Areas Have Been Designated	<u>DEFICIENT.</u> ODJFS has designated all of its local areas. Currently, the designation consists of seven conventional areas and a strategic option area. We found that the strategic option area, LWIA #7, didn't conform to WIA requirements. This issue is discussed in detail in Finding Number 4.
3. All Local Allocations Have Been Issued/Locals Are Expending Funds In Accordance With Their Plans	<u>MINOR DEFICIENCY.</u> ODJFS did not issue allocations to LWIAs. Instead, ODJFS allocated funds by county. Although we did not develop a finding in this area, funds should be allocated to LWIAs through grant agreements.
4. All Local Plans Have Been Approved/Activities And Programs Are In Place	<u>IN COMPLIANCE.</u> ODJFS has approved all local plans. All local areas have activities and programs in place.
5. State List Of Eligible Providers Has Been Developed	<u>IN COMPLIANCE.</u> ODJFS has developed and made available a list of eligible training providers.
6. State/DOL Performance Goals Negotiations Have Been Completed	<u>IN COMPLIANCE.</u> ODJFS met WIA requirements for negotiating performance goals with DOL.
7. State/Local Performance Goals Negotiations Have Been Completed	<u>DEFICIENT.</u> ODJFS did not meet WIA requirements for negotiating local performance goals. ODJFS limited local involvement by dictating to local areas their performance goals. ODJFS is in the process of allowing LWIAs to submit alternate level of performance.
8. Performance Measurement And Reporting Systems Are In Place	<u>DEFICIENT AS OF NOVEMBER 2002.</u> ODJFS has a performance measurement and reporting system in place. However, the system did not produce accurate data thereby limiting the benefits derived from such system. During our exit, ODJFS provided an update on the new system that was implemented. We believe that the implementation of SCOTI brought ODJFS <u>IN COMPLIANCE</u> with WIA requirements subsequent to our original audit work.
9. State Is Providing Statewide Services As Required By 129(B)(2) And 134(a)(2), including: <ul style="list-style-type: none"> • State Rapid Response Activities • widespread dissemination of State list of eligible training providers, including performance and cost information • dissemination of State list of eligible youth activity providers. 	<u>IN COMPLIANCE.</u> Overall, ODJFS is meeting this requirement. ODJFS encountered problems obtaining cost information for subsequent eligibility determination. However, ODJFS requested and was granted a waiver for the requirement.

Evaluation of Ohio's Implementation of WIA

Elements Of A Fully Implemented WIA System (ETGL 15-99)	OIG Assessment As of October 2003
10. Financial Management Systems Are Operating In Accordance With State And Federal Requirements	<u>DEFICIENT.</u> Financial systems are not operating in accordance with Federal requirements. Financial data have not accurately reflected financial operations and financial systems were not effective in preventing costs from being claimed in excess of WIA's administrative cost limitation. Since our November 2002 assessment, ODJFS has provided financial information that suggests significant improvements in financial operations. However, until accounting and reporting systems for WIA funds are fully implemented at the county level, we believe that ODJFS's overall financial management systems are not operating in accordance with Federal/ State requirements. Exhibit B, Issue 5.
11. All Local Boards Have Been Appointed And Are Operational	<u>DEFICIENT.</u> All local boards were appointed but they are not all operating in accordance with WIA guidelines. LWIA #7's board has several issues that need to be addressed. These issues are noted in our assessment of corrective actions cited by ETA as presented in Exhibit B, Issues 1a and 1b.
12. All Local Youth Councils Have Been Appointed And Are Operational	<u>MINOR DEFICIENCY.</u> Most local youth councils have been appointed. However, some were missing members that are required by law. LWIA #7 Board delegated this requirement to the Workforce Policy Board. This issue is being reviewed as part of the local restructuring plan.
13. All Local Boards Have Certified At Least one One-Stop Operator	<u>IN COMPLIANCE.</u> All the local boards have at least one certified One-Stop Operator.
14. All Local Boards Have Executed MOUs Which Meet The Requirements Of 121(C)(2) With All Required Partners	<u>DEFICIENT.</u> Many One-Stops were missing required partners and therefore do not have MOUs for all required partners. MOUs originally developed by the local areas were inadequate. However, MOUs were redone to include all the necessary provisions required for valid agreements. This issue is discussed in more detail in Finding Number 6.
15. A Full Service One-Stop Center Is Operational In Each Local Area That: <ul style="list-style-type: none"> • provides an integrated intake process • provides core services • provides access to partner programs and activities • makes intensive services accessible to adults and dislocated workers • provides ITAs to adults and dislocated workers 	<u>DEFICIENT.</u> All local areas have designated a full service One-Stop Center. However, all One-Stop Centers did not have the required partners and core services required under WIA. We found that five of the One Stop Centers had missing or deficient partners. This issue is discussed in more detail in Finding Number 6.
16. All Ten Required Youth Program Elements Are Being Made Available In All Local Areas	<u>MINOR DEFICIENCY.</u> Four local areas' plans did not include all ten required youth program elements.
17. Youth Providers Have Been Selected In Accordance With The Law And Regulations	<u>IN COMPLIANCE.</u> Youth Providers have been selected in accordance with the law and regulations.

**Assessment of Corrective Actions Taken By
ODJFS on Issues Cited by ETA**

Issues Identified by ETA	ODJFS Actions	OIG Assessment As of October 2003
1. Local Board for Area #7		
<p>a. LWIA #7 Board has not designated fiscal agent entities and defined their roles.</p>	<p>LWIA #7 is currently in the process of restructuring the area and naming a new fiscal agent.</p>	<p><u>PENDING</u>. Steps to resolve this issue are in the planning stage. If ODJFS follows through, the issue should be resolved.</p> <p>STATE RESPONSE: The Fiscal Agent will be selected at the next Area #7 Workforce Investment Board (WIB) meeting.</p> <p>AUDITOR'S CONCLUSION: ODJFS's planned corrective action, when completed, will resolve this issue. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
<p>b. LWIA #7 Board has not:</p> <ul style="list-style-type: none"> • appointed a youth council and competitively selected youth program providers • selected service providers for adult and dislocated worker programs • drafted comprehensive MOUs for seamless delivery of program services. • certified One-Stop operators. • identified demand occupations for targeting training services. • negotiated performance levels and specified levels for retention on the ETP list. • approved Individual Training Account (ITA) mechanisms/agreements for compensating training providers and recognizing exceptions. 	<p>LWIA #7 Board delegated requirement to the Workforce Policy Board. This issue is being reviewed as part of the local restructuring plan.</p>	<p><u>ALL 8 UNRESOLVED</u>. ODJFS has not resolved this issue.</p> <p>STATE RESPONSE: The intention of the Area #7 WIB is that these issues will be resolved by December 31, 2004.</p> <p>AUDITOR'S CONCLUSION: ODJFS should continue to work diligently to resolve this issue as soon as possible. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>

**Assessment of Corrective Actions Taken by
ODJFS on Issues Cited by ETA**

Issues Identified by ETA	ODJFS Actions	OIG Assessment As of October 2003
2. Viability of Local Area #7 and its Sub-Areas		
LWIA #7 doesn't conform to WIA because it isn't served by local and intermediate educational agencies; not served by postsecondary educational institutions and area vocational schools; not consistent with labor market areas; and not within commuting distance for receipt of services.	Section 116(a)(1) (B), Items i and ii states that in making a designation of local areas this criteria should be considered. ODJFS does not see a requirement beyond the consideration of these factors. When LWIA #7 was created these factors were considered. It is ODJFS's position that this finding should be eliminated.	<p>UNRESOLVED. We believe that the language in the Act infers that the selection of LWIAs should be based on those considerations, and failure to do circumvent the intent of the Act. However, we noted that ODJFS indicated in its progress report that incremental modifications are being made to LWIA #7 to comply with WIA requirements.</p> <p>STATE RESPONSE: Area #7 will be in compliance by December 31, 2004.</p> <p>AUDITOR'S CONCLUSION: ODJFS should work diligently to resolve this issue as soon as possible. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
3. Grant Management		
No grant agreement with LWIAs composed of multiple counties. (The State informs each county of its allocation.)	Grant agreements have been executed with the LWIAs and counties. However, the State still informs counties of their allocations.	COMPLETED. Action taken by the agency resolves this issue. However, allocation of funds should be done by the LWIAs and included as part of the agreement.
4. Financial Management		
a. Insufficient budgetary and accounting controls over funds by year of appropriation.	The State's current accounting system accounts for funds by year of appropriation. The LWIAs, as well as the sub-areas, report the required financial information on a quarterly basis	<p>PENDING. Some progress has been made. However, ODJFS continues to experience problems in this area.</p> <p>STATE RESPONSE: ODJFS believes that sufficient systems for budgetary controls over funds by year of appropriation have been effectively implemented.</p> <p>AUDITOR'S CONCLUSION: We cannot make a valid assessment without further audit work. Therefore, ETA should assess the effectiveness of ODJFS's systems for budgetary controls over funds by year of appropriation. We cannot consider this resolved until there is verification of the controls.</p>

Exhibit B (Continued)

**Assessment of Corrective Actions Taken by
ODJFS on Issues Cited by ETA**

Issues Identified by ETA	ODJFS Actions	OIG Assessment As of October 2003
b. The State cannot use the FIFO method at the State level to assign local expenditures by year of appropriation.	ODJFS has directed counties to use the earlier funds first.	<u>COMPLETED.</u> Action taken by the agency resolves this issue.
c. Obligations are not recorded, tracked, or reported at the State or local levels.	ODJFS now records, tracks and reports obligations at the State and local level.	<u>COMPLETED.</u> Action taken by the agency resolves this issue.
d. The cash management system does not minimize the amount of time between cash drawdowns and disbursements at the local level.	ODJFS changed from a cash advance system to a cash draw system in July 2002 to minimize the time lapse between drawdowns and disbursements.	<u>COMPLETED.</u> Action taken by the agency resolves this issue.
e. Ohio has no official mechanism to account for or report interest/other program income.	ODJFS modified its accounting system to report interest/other program income.	<u>COMPLETED.</u> Action taken by the agency resolves this issue.
f. Ohio has no established procedures to report accrued expenditures.	ODJFS modified the accounting system to report accrued expenditures.	<u>COMPLETED.</u> Action taken by the agency resolves this issue.
g. LWIAs do not account for local area expenditures and do not submit financial reports to the State.	LWIA #7 Board delegated this requirement to the Workforce Policy Board. This issue is being reviewed as part of the local restructuring plan.	<p><u>UNRESOLVED.</u> ODJFS has not resolved this issue.</p> <p>STATE RESPONSE: ODJFS concurs with this observation and is in the process of implementing practices, effective July 1, 2004, to resolve this issue.</p> <p>AUDITOR'S CONCLUSION: ODJFS should continue to work diligently to resolve this issue as soon as possible. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
h. Non-reporting or late reporting counties are omitted from the statewide expenditure report.	ODJFS continues to work with areas that do not submit timely reports. Ongoing technical assistance is provided and will continue until this is no longer an issue.	<p><u>PENDING.</u> ODJFS is working to resolve this issue. However, the problem has not been completely resolved.</p> <p>STATE RESPONSE: ODJFS continues to work on the issue which should be resolved by July 30, 2004.</p> <p>AUDITOR'S CONCLUSION: ODJFS should continue to work diligently to resolve this issue as soon as possible. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>

**Assessment of Corrective Actions Taken by
ODJFS on Issues Cited by ETA**

Issues Identified by ETA	ODJFS Actions	OIG Assessment As of October 2003
5. Fund Accounting		
Accounting and reporting systems for WIA funds do not exist at the county level.	ODJFS recognizes the need for accurate and timely fund accounting reporting. However, in many cases the areas have adequate fund accounting systems that operate independently from CORE. This area will require additional State evaluation to ensure a comprehensive response.	<p><u>PENDING.</u> ODJFS is working to resolve this issue. However, the problem has not been completely resolved.</p> <p>STATE RESPONSE: ODJFS continues to work on the issue which should be resolved by July 30, 2004.</p> <p>AUDITOR'S CONCLUSION: ODJFS should continue to work diligently to resolve this issue as soon as possible. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
6. Cost Pooling and Random Moment Sampling (RMS)		
a. The RMS system, which the State uses to allocate cost from its cost pools, has very significant flaws and is currently producing distorted results that will likely result in large amount of disallowed costs.	On-going training is held at the local level to assure that time reporting is done in compliance with the rules and regulations that support the RMS system. We will continue to work with local entities on training of coordinators responsible for the oversight of the RMS process.	<p><u>PENDING.</u> ODJFS continues to utilize the RMS system as an approved method of measuring employees efforts and allocating costs. Some improvements to the systems are needed. We noted concerns with the RMS system outlined in Finding Number 2.</p> <p>STATE RESPONSE: This issue will be resolved with the implementation of monitoring the RMS as outlined in the response to Finding Number 2.</p> <p>AUDITOR'S CONCLUSION: ODJFS's planned corrective action, when completed, will resolve this issue. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>

**Assessment of Corrective Actions Taken by
ODJFS on Issues Cited by ETA**

Issues Identified by ETA	ODJFS Actions	OIG Assessment As of October 2003
<p>b. Many costs included in the cost pools are not allowable WIA costs.</p>	<p>The State is currently reviewing its cost pool practices. If unallowable WIA costs are noted and charged, we will make the necessary adjustments to correct the situation.</p>	<p><u>PENDING.</u> Some costs noted during our fieldwork were unallowable and charged to the costs pool. The amount was immaterial and noted in our working papers. More needs to be done to eliminated the charges of unallowable cost to the cost pool.</p> <p><u>STATE RESPONSE:</u> ODJFS continues to monitor expenditures to ensure they are properly charged. This process will continue.</p> <p><u>AUDITOR'S CONCLUSION:</u> ODJFS's planned corrective action, when completed, will resolve this issue. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
<p>7. Direct Charging of Certain Costs</p>		
<p>The State financial system does not have the ability to direct charge staff costs to appropriate grants and cost categories.</p>	<p>ODJFS is currently developing a policy that will require subrecipients to direct charge program and administrative staff costs to the National Emergency Grants (NEG). NEG expenditures will no longer be captured through RMS once all subrecipients are made aware of this practice. Implementation of this policy will be reflected in the NEG reports.</p>	<p><u>PENDING.</u> Steps to resolve this issue are in the planning stage. If ODJFS follows through it should rectify this issue.</p> <p><u>STATE RESPONSE:</u> ODJFS has implemented this action. This issue is resolved.</p> <p><u>AUDITOR'S CONCLUSION:</u> We cannot make a valid assessment without further audit work. Therefore, ETA should assess ODJFS financial system's ability to direct charge staff costs to appropriate grants and cost categories.</p>
<p>8. Performance Reporting System</p>		
<p>a. The State's Service Link system does not have the capability to produce Federal Participant quarterly and annual reports for WIA formula funds.</p>	<p>Local areas and sub-areas are required to record, track and report WIA participant activity through serviceLink/QuickLink. Some local areas and sub-areas are also using alternative methods. ODJFS is beginning a new reporting system, called SCOTI (Sharing Career Opportunities and Training Information), on July 1, 2003. SCOTI has the capacity to produce required reports.</p>	<p><u>PENDING AS OF NOVEMBER 2002.</u> ODJFS has implemented a new participant activity reporting system. Although ODJFS is still working to converted files and certify their accuracy, we believe that SPR validation of the data with no inconsistencies indicates that the SCOTI is capable of producing accurate Federal Participant annual reports. Therefore, we believe this issues is now <u>RESOLVED.</u></p>

**Assessment of Corrective Actions Taken by
ODJFS on Issues Cited by ETA**

Issues Identified by ETA	ODJFS Actions	OIG Assessment As of October 2003
b. The State has not taken any steps to ensure the quality and accuracy of the data at the local level.	Monitoring reviews are done at the local level by the State.	<u>COMPLETED</u> . Action taken by the agency resolves this issue.
9. One-Stop System		
a. Most of the One-Stop centers do not include the required 19 partners or 5 optional partners.	ODJFS is continuing to work with all local areas to ensure that MOUs and cost-sharing agreements are fully developed and compliant with WIA requirements, including the required partners' provisions.	<p><u>PENDING</u>. Five of the LWIAs comprehensive One-Stops still do not have the required partners. This issue is addressed in Finding Number 6 of this report.</p> <p>STATE RESPONSE: ODJFS continues to resolve this issue and should be in compliance by July 30, 2004.</p> <p>AUDITOR'S CONCLUSION: ODJFS should continue to work diligently to resolve this issues as soon as possible. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
b. The State has not issued basic criteria for the structure and operation of its One-Stop Center system.	ODJFS has issued guidance for the structure and operation of its One-Stop Center system.	<p><u>PENDING</u>. The State has issued some guidance including certification requirements.</p> <p>STATE RESPONSE: ODJFS is conducting the One-Stop comprehensive certification process and is providing technical assistance to ensure that the One-Stop delivery system is appropriately implemented. The results of this action should be evident by July 30, 2004.</p> <p>AUDITOR'S CONCLUSION: ODJFS should continue to work diligently to resolve this issue as soon as possible. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>

**Assessment of Corrective Actions Taken by
ODJFS on Issues Cited by ETA**

Issues Identified by ETA	ODJFS Actions	OIG Assessment As of October 2003
c. The One-Stop system does not facilitate coordination between various youth service providers.	The State of Ohio will include as part of the State Youth Plan a section that will outline how youth services will be coordinated under the WIA formula grant, Job Corps, and Youth Opportunity grant. For the beginning of Program Year 2003, Ohio will also develop guidance instructing local areas on strategies for coordinating the formula WIA program with the Job Corps Programs throughout the State and the Youth Opportunity Grant in the City of Cleveland.	<p><u>PENDING.</u> This issue continues to be a problem for ODJFS.</p> <p>STATE RESPONSE: ODJFS continues to work on this issue and will be submitting changes in our youth plan.</p> <p>AUDITOR'S CONCLUSION: ODJFS should continue to work diligently to resolve this issue as soon as possible. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
10. Labor Exchange Service Delivery System		
The Local Operations Transition Plan does not meet WIA requirements.	All State merit staff assigned to Wagner-Peyser duties are now and have always been required to use the Ohio Job Net (OJN) system which meets all current DOL requirements.	<u>NOT REVIEWED.</u> This issue was not examined by OIG because it dealt with legislation focusing on Wagner-Peyser requirements.
11. Labor Exchange Job Matching System		
Ohio Works system does not meet required needs or requirements.	At no time did the State of Ohio take down its Ohio Job Net (OJN) system. Even while OhioWorks was active, State staff continued to use OJN for all Wagner-Peyser activities. There was no reporting gap during the period that OhioWorks was in use.	<u>NOT REVIEWED.</u> This issue was not examined by OIG because it dealt with legislation focusing on Wagner-Peyser requirements.
12. Memorandum of Understanding (MOU)		
a. Area #7 Board has not executed any MOUs.	LWIA #7 Board delegated requirement to the Workforce Policy Board. ODJFS will continue to work with LWIA #7 to ensure that MOUs and cost-sharing agreements are fully developed with LWIA #7 Board required and optional partners.	<p><u>UNRESOLVED.</u> ODJFS has not resolved this issue.</p> <p>STATE RESPONSE: It is ODJFS's opinion that this should not be incorporated in the report because there is no requirement in the Act or Regulations that requires sub-areas to have MOUs. However, WIA MOUs will be submitted March 29, 2004.</p> <p>AUDITOR'S CONCLUSION: ETA cited this as a deficiency in its October 31, 2001 letter. ODJFS's planned corrective action, when completed, will resolve this issue. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
b. LWIAs have executed MOUs that are merely hollow templates.	LWIAAs have redone their MOUs to come into compliance with WIA requirements.	<u>COMPLETED.</u> Actions taken by the agency corrected this issue.

**Assessment of Corrective Actions Taken by
ODJFS on Issues Cited by ETA**

Issues Identified by ETA	ODJFS Actions	OIG Assessment As of October 2003
13. Poor Program Performance		
Ohio has met only 4 of 17 negotiated performance levels, and failed 11 of the 17 WIA performance measures.	In Program Year 2000, Ohio met or exceeded 11 out of 17 performance standards. In Program Year 2001, Ohio met or exceeded 13 out of 17 standards. Even though Ohio has improved over the year, we feel that the standards we did not meet was a reporting issue rather than a performance issue.	<p><u>PENDING.</u> Some progress has been made. However, ODJFS continues to experience problems in this area.</p> <p>STATE RESPONSE: ODJFS is implementing actions that will correct this deficiency. Those actions include delegating staff to concentrate on performance, negotiating performance with the local level that reflects local barriers, ensuring an adequate reporting system and providing technical assistance.</p> <p>AUDITOR'S CONCLUSION: ODJFS's planned corrective action, when completed, will resolve this issue. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
14. Unmet Service Needs and Unused Funds		
Ohio expended only 28% of its WIA funds as of 9/30/01.	ODJFS is taking steps to assure funds are appropriately obligated and meet the requirements of the WIA Regulations. Internal processes are being developed to assure that 80% of the funding is being obligated and funds are being expended.	<p><u>PENDING.</u> Expenditures increased to 65% as of the period ending June 2002.</p> <p>STATE RESPONSE: ODJFS continues to work on its monitoring and reporting processes so that funds are expended more timely.</p> <p>AUDITOR'S CONCLUSION: ODJFS's planned corrective action, when completed, will resolve this issue. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
15. Procurement		
The State must formally alert the WIA network of the proper standards governing WIA procurement transaction.	Proper standards governing WIA procurement are being adhered to by all level administering the WIA program.	<u>COMPLETED.</u> Action taken by the agency resolves this issue.
16. Eligible Training Provider Lists for Youth Service Providers		
a. The state has not disseminated a list of eligible providers of youth activities.	Eligible youth training providers have been disseminated throughout the state.	<u>COMPLETED.</u> Action taken by the agency resolves this issue.

**Assessment of Corrective Actions Taken by
ODJFS on Issues Cited by ETA**

Issues Identified by ETA	ODJFS Actions	OIG Assessment As of October 2003
<p>b. The eligible youth provider list on the state web site does not list youth training providers for every local workforce area.</p>	<p>The State is working with the local areas to ensure that all youth providers are submitted for this list. The updated list will be published on our website.</p>	<p><u>UNRESOLVED.</u> This problem still exists.</p> <p>STATE RESPONSE: This list has been published and is reflective of all information submitted to date. This is also an area that is monitored.</p> <p>AUDITOR'S CONCLUSION: ODJFS's planned corrective action, when completed, will resolve this issue. We will consider this issue resolved when evidence of corrective action has been submitted to ETA.</p>
<p>c. The competitive award requirements of Section 123 of the WIA have not been met.</p>	<p>Each area and sub-area is required to competitively award the ten youth program elements. The Office of Research Assessment Accountability program and financial monitoring staff review the subareas to ensure that the youth program operators are competitively selected. Evidence of this is outlined in the monitoring reports.</p>	<p><u>COMPLETED.</u> Action taken by the agency resolves this issue.</p>
<p>17. Monitoring and Oversight</p>		
<p>a. The State has not conducted oversight and monitoring activities to safeguard Federal assets and ensure program performance and integrity, nor has it ensured that all local areas have fulfilled their WIA mandated monitoring and oversight functions.</p>	<p>Monitoring reviews have been conducted.</p>	<p><u>COMPLETED.</u> Action taken by the agency resolves this issue.</p>
<p>b. Fiscal and/or programmatic monitoring reports were issued in draft form only and were never finalized.</p>	<p>Monitoring reports have been finalized and sent to the field. This practice will continue.</p>	<p><u>COMPLETED.</u> Action taken by the agency resolves this issue.</p>
<p>c. There is no indication that the State has ensured that all local areas have conducted monitoring and oversight activities as required by WIA.</p>	<p>As part of the State's monitoring efforts, local areas are reviewed to ensure that monitoring has been conducted for their area. If an area is not in compliance with this requirement, a corrective action plan is developed and submitted to the State. The State monitors this plan to ensure that this does occur.</p>	<p><u>COMPLETED.</u> Action taken by the agency resolves this issue.</p>
<p>18. Capacity Building</p>		
<p>The State has not developed, nor does it have a system to develop staff knowledge and expertise at the State or local level.</p>	<p>This issue was not examined by OIG.</p>	<p><u>NOT REVIEWED.</u> This issue was not examined by OIG because it dealt with ODJFS's staff knowledge base and their experience in administering WIA type programs.</p>

**Assessment of Corrective Actions Taken by
ODJFS on Issues Cited by ETA**

Issues Identified by ETA	ODJFS Actions	OIG Assessment As of October 2003
19. System Communication		
<p>The State does not have a statewide communication system (LAN network) to distribute information, solicit comments, issue directives, etc.</p>	<p>The State has a statewide communication system to ensure local WIA directors, entities administering the WIA program and chief elected officials receive the same official information. The Bureau of Workforce Services maintains two e-mail accounts whereby individuals may submit questions regarding WIA programs and labor exchange services. The Office of Workforce Development maintains a database to ensure that individuals are notified of new and updated information posted on the websites.</p>	<p><u>COMPLETED</u>. Action taken by the agency resolves this issue.</p>

Background and Criteria

Workforce Investment Act

The Workforce Investment Act of 1998 (WIA), was designed to reform Federal job training programs and create a new comprehensive workforce investment system. WIA superseded the JTPA, amended the Wagner-Peyser Act, and contains the Adult Education and Family Literacy Act and the Rehabilitation Act Amendments of 1998.

WIA's goal is to increase employment, retention, and earnings of participants, and in doing so, improve the quality of the workforce to sustain economic growth, enhance productivity and competitiveness, and reduce welfare dependency. In addition, the WIA is intended to be customer-focused, to help Americans access the tools they need to manage their careers through information and high quality services, and to help United States companies find skilled workers.

Most WIA funds are provided through grants to the states for employment and training programs. In order for states to be eligible to receive funds under WIA, a state plan had to be submitted and be approved by the Secretary. During the PY 1999 plan approval process, the Department utilized the Secretary's transition authority to approve transition plans for states that were not ready to fully implement the provisions of WIA. Under the Transition Plan, states began to implement some of WIA's provisions immediately, while waiting until a later time to implement other provisions. On June 13, 2000, the Employment and Training Administration (ETA) issued Training and Employment Guidance Letter Number 15-99 outlining steps to fully implement the required provisions for WIA. These steps were to be implemented by July 1, 2000.

WIA Implementation in Ohio

With the passage of WIA and other Federal Legislation, the State of Ohio substantially restructured its workforce governance and service delivery system. In 1999, the Ohio Legislature enacted two bills that merged two departments (Ohio Bureau of Employment Services (OBES) and Ohio Department of Human Services (ODHS)) to form Ohio Department of Job and Family Services (ODJFS). ODJFS is responsible for administering the WIA program.

To operate the WIA program and deliver services, Ohio established seven Local Workforce Investment Areas (LWIA) in PY 2000. In PY 2001, Ohio reconfigured territories within some LWIAs and increased the number of LWIAs to eight. Under the present LWIA configuration, Ohio has seven conventional areas and a Strategic Option Area (see Appendix C). The Strategic Option Area, consisting of 80 governmental entities

Appendix A (Continued)

(78 counties and two major cities), was considered an alternate mechanism of implementing WIA. It was implemented as a single designated workforce area and encompassed sub-areas composed of multi-county regional partnerships.

On October 31, 2001, the Chicago Regional ETA Office sent a letter to the ODJFS citing 40 issues of non-compliance and non-performance in operating the WIA program. ODJFS began a series of corrective actions to address the deficiencies cited by ETA and provided ETA with progress reports detailing its efforts to correct the areas of non-compliance and non-performance. ODJFS also submitted targeted completion dates for compliance.

Ohio was authorized funding totaling \$239.9 million to administer the WIA program for the 2-year period July 1, 2000 to June 30, 2002 (see Appendix D). Ohio reported expenditures totaling \$156 Million. WIA funding was awarded under program and fiscal year appropriations, which overlap. WIA funds are multi-year funding and grantees have the option to charge costs to multiple grants.

Criteria

We used the following criteria to perform this audit:

- Public Law 105-220, August 7, 1998, Workforce Investment Act of 1998;
- Part 652 and Parts 660 through 671 of CFR 20 (Workforce Investment Act; Final Rule);
- ETA Training and Employment Guidance Letters (TEGL), including TEGL 15-99, "Contingency Planning Options for State Plans under the Workforce Investment Act of 1998 and the Wagner-Peyser Act, Attachment I";
- OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments); and
- Part 97 of CFR 29 (Uniform Administrative Requirement for Grants and Cooperative Agreements to State and Local Governments).

Objectives, Scope, and Methodology

Objectives

Our objectives were to conduct a performance audit of Ohio's compliance with critical provisions of the WIA program, and to assess the corrective actions taken by Ohio to address issues cited by ETA. We have defined "critical provisions" of WIA as the "Elements of a Substantially Implemented WIA System" developed by ETA (TEGL 15-99, Attachment I).

Scope and Methodology

The period audited was July 1, 2000 to June 30, 2002. We performed audit work at ODJFS and two of its eight LWIAs. We selected LWIAs numbers 3 (City of Cleveland) and 7 (Strategic Option Area). Additionally, we selected two of LWIA Number 7 subareas (subarea 7/36 and 7/53 "Montgomery and Meigs Counties") to visit because of LWIA Number 7 size and organizational structure. In making our selection of the LWIAs and subareas, we considered geography (urban vs. rural) and other factors deemed relevant (i.e., conventional vs. non-conventional/Strategic Option).

For LWIAs and/or subareas that we did not visit, our evaluations were based on available documentation at ODJFS, telephone contacts, or information faxed/emailed to us by the applicable organization. Our assessment of corrective actions cited by ETA was limited to 40 of the 43 items ETA identified. Two of the three items were excluded because they dealt mainly with legislation focusing on Wagner-Peyser requirements. The other dealt with ODJFS's staff knowledge base and their experience in administering WIA type programs. We decided not to evaluate the staff's expertise, instead focus on whether systems were in place to administer the WIA program.

To assess Ohio's WIA implementation and the status of its actions to correct deficiencies reported by ETA, we interviewed ODJFS staff at the state and local level who administered the WIA program. We also reviewed and analyzed the Governor/Secretary Agreement, subrecipient agreements, financial records (e.g., general ledgers, financial status reports, agency financial spreadsheets, etc.), program data, progress report submitted to ETA, the State plan, local plans, and other relevant documents, including various policies and procedures. We evaluated ODJFS's ongoing and/or planned operations to assess its efforts in administering the WIA program and complying with Federal requirements. Subsequent to our fieldwork, we asked ODJFS to update the status of WIA implementation and actions to correct deficiencies reported by ETA. Based on ODJFS's input, we updated our assessments in Exhibits A and B.

Appendix B (Continued)

As part of our audit planning, we conducted a vulnerability assessment of the financial management, participant eligibility, and cost allocation. We assessed the vulnerability as high because of numerous issues cited by ETA during monitoring visits.

Management Controls

Our work on established management controls included obtaining and reviewing policies and procedures manuals, interviewing key personnel, and reviewing selected transactions to observe controls in place. Our testing of management controls was focused only on the controls related to our audit objectives of assessing compliance with critical provisions of the WIA program and was not intended to form an opinion on the adequacy of management controls overall, and we do not render such an opinion. Weaknesses noted in our testing are discussed in the Findings 1, 2, and 3 of this report.

Compliance with Laws and Regulations

As a result of the vulnerability assessment, we performed attribute testing at each site visited using both statistical and judgmental sampling. In order to determine compliance with laws and regulations cited on page 32 of this report, we performed detailed tests of transactions and tested a limited sample of participants who were enrolled in the program during our audit period. Our detailed tests of transactions included both analytical review and substantive tests of accounts. Our testing related to compliance with laws and regulations was focused only on the laws and regulations relevant to our audit objectives of assessing compliance with critical provisions of the WIA program and was not intended to form an opinion on the compliance with laws and regulations as a whole, and we do not render such an opinion. Instances of noncompliance are discussed in the Findings 4, 5, and 6 of this report.

Sampling

When information was available in an electronic format, we selected transactions randomly. Otherwise, judgmental sampling based on dollar amounts was used. We tested transactions for quarters ending September 2000, June 2001 and March 2002, at all locations. We did not intend our testing to be a representative sample and did not project to the entire universe of financial transactions or participants. In addition, our selective testing was not designed to express an opinion on Ohio's financial status reports (FSRs) overall, and we do not render such an opinion.

Auditing Standards

We conducted our audit in accordance with *Government Auditing Standards* for performance audits, issued by the Comptroller General of the United States. We conducted fieldwork from May 20, 2002 to November 22, 2002, at the offices of ODJFS in Columbus

and its subrecipients in the City of Cleveland, and Montgomery and Meigs Counties. We updated our assessments in Exhibits A and B, based on ODJFS's input, in October 2003.

State Of Ohio Workforce Investment Areas

Effective July 1, 2001



Areas 1, 2, 3, 4, 5, 6 and 8 are Ohio's conventional local workforce investment areas.

The '7/' prefix denotes the Ohio Option Area, which is Ohio's 7th local workforce investment area. The areas numbered 7/7 through 7/63 are the Ohio Option sub-areas.

Ohio has 8 Workforce Investment Areas. The Ohio Option Area includes 57 sub-areas for a total of 64 areas.

Summary of Financial Status Reports as of June 30, 2002

Program	Funding Year	Total Funds Authorized	Net Fund Outlays	Federal Unliquidated Obligations	Total Federal Obligations	Percentage of Funds Expended
Statewide Activities	PY 2000	\$9,297,410	\$9,297,410	\$0	\$9,297,410	100%
Statewide Activities	FY 2001	\$7,627,190	\$4,155,616	\$329,303	\$4,484,919	54%
Statewide Activities	PY 2001	\$10,568,203	\$0	\$0	\$0	0%
Statewide Activities	FY 2002	\$8,496,542	\$0	\$0	\$0	0%
Total Statewide		\$35,989,345	\$13,453,026	\$329,303	\$13,782,329	37%
Rapid Response	PY 2000	\$2,559,902	\$1,678,019	\$170,042	\$1,848,061	66%
Rapid Response	FY 2001	\$5,151,104	\$0	\$0	\$0	0%
Rapid Response	PY 2001	\$2,134,063	\$2,134,063	\$0	\$2,134,063	100%
Rapid Response	FY 2002	\$5,718,044	\$2,833,427	\$0	\$2,833,427	50%
Total Rapid Response		\$15,563,113	\$6,645,509	\$170,042	\$6,815,551	43%
Local Admin	PY 2000	\$5,012,542	\$4,930,350	\$0	\$4,930,350	98%
Local Admin	FY 2001	\$3,806,964	\$3,202,500	\$0	\$3,202,500	84%
Local Admin	PY 2001	\$5,775,241	\$4,360,963	\$1,287,029	\$5,647,992	76%
Local Admin	FY 2002	\$4,242,903	\$1,343,708	\$1,796,102	\$3,139,810	32%
Total Local Admin		\$18,837,650	\$13,837,521	\$3,083,131	\$16,920,652	73%
Youth	PY 2000	\$31,849,726	\$30,726,088	\$0	\$30,726,088	96%
Youth	PY 2001	\$38,731,693	\$18,482,618	\$20,249,075	\$38,731,693	48%
Total Youth		\$70,581,419	\$49,208,706	\$20,249,075	\$69,457,781	70%
Adult	PY 2000	\$7,184,548	\$7,184,548	\$0	\$7,184,548	100%
Adult	FY 2001	\$22,481,056	\$21,117,071	\$0	\$21,117,071	94%
Adult	PY 2001	\$8,457,323	\$8,267,555	\$189,768	\$8,457,323	98%
Adult	FY 2002	\$25,835,152	\$9,189,635	\$7,886,251	\$17,075,886	36%
Total Adult		\$63,958,079	\$45,758,809	\$8,076,019	\$53,834,828	72%
Dislocated Worker	PY 2000	\$6,078,601	\$6,044,125	\$0	\$6,044,125	99%
Dislocated Worker	FY 2001	\$11,781,619	\$10,687,934	\$0	\$10,687,934	91%
Dislocated Worker	PY 2001	\$4,788,159	\$4,788,159	\$0	\$4,788,159	100%
Dislocated Worker	FY 2002	\$12,350,975	\$5,632,190	\$6,718,785	\$12,350,975	46%
Total DW		\$34,999,354	\$27,152,408	\$6,718,785	\$33,871,193	78%
TOTAL		\$239,928,960	\$156,055,979	\$38,626,355	\$194,682,334	65%

Acronyms/Abbreviations

CFR	Code of Federal Regulations
CORe	Central Office Reporting System
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FIFO	First In First Out
FY	Fiscal Year
FSR	Financial Status Report
ITA	Individual Training Account
JTPA	Job Training Partnership Act
LWIA	Local Workforce Investment Area
MOU	Memorandum of Understanding
NEG	National Emergency Grant
OBES	Ohio Bureau of Employment Services
ODHS	Ohio Department of Human Services
OIG	Office of Inspector General
OJN	Ohio Job Net
ODJFS	Ohio Department of Job and Family Services
OMB	Office of Management and Budget
PY	Program Year
RMS	Random Moment Sampling
SCOTI	Share Career Operation Training Information
SPR	Social Policy Research Associates
TEGL	Training and Employment Guidance Letters
WIA	Workforce Investment Act
WIB	Workforce Investment Board

Ohio's Response to Draft Report

In addition to the letter shown on the following page, ODJFS officials provided their response to each finding as part of a copy of the entire report narrative. Therefore, we have not provided the state's response as an attachment. We have included their responses within each finding in the report.

The grantee also provided a copy of Exhibit B, with its response to each issue. We've included that narrative in our revised Exhibit B.

Bob Taft
Governor



Tom Hayes
Director

30 East Broad Street • Columbus, Ohio 43215
www.state.oh.us/odjfs

February 20, 2004

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

RE: Ohio's Workforce Investment Program
Audit Period: July 1, 2000 through June 30, 2002
Draft Audit Report, dated February 4, 2004

Dear Mr. Allberry:

This is a response submitted as requested to the draft audit report, dated February 4, 2004, from the on-site review of Ohio's Workforce Investment Act (WIA) Title I Programs conducted by your office.

This draft report contained six findings which were in need of a response from the State. Enclosed is a copy of each of the findings, your recommendations and our responses.

If you have any questions regarding this response, please contact Joan Beery, Grants Manager/Grants and Audits, at 614.387.7318 or beeryj@odjfs.state.oh.us or Steve Clayborn, Section Chief/Grants and Audits, at 614.644.8826 or claybs@odjfs.state.oh.us.

Sincerely,



Thomas J. Hayes, Director
Ohio Department of Job and Family Services

TJH:SC/jrb

Attachment

cc: Kenneth Marshall, Chief Inspector/Office of the Chief Inspector
Melissa DeLisio, Assistant Director
Bruce Madson, Deputy Director/OWD
Quentin Potter, Deputy Director/OFS
Neva Terry, Deputy Director/ORAA
Mark Birnbrich, Assistant Deputy Director/OWD
Biljana Manev, Chief/BCS
John Weber, Chief/BWS
Dick Starks, Office of Chief Inspector
Janet Histed, Bureau Chief/Federal Reporting
Grants and Audits/OWD

An Equal Opportunity Employer