

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



MAR 22 2004

MEMORANDUM FOR: EMILY STOVER DeROCCO
Assistant Secretary
for Employment and Training

FROM: *Elliot P. Lewis*
ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Arkansas Human Development Corporation
Audit Report No. 21-04-001-03-365

The attached subject final report is submitted for your resolution action. Harper, Rains, Knight & Company, P.A., prepared the report, under contract with the U.S. Department of Labor, Office of Inspector General.

In its written response to our draft report, the Arkansas Human Development Corporation (AHDC) included personal identifying information protected from disclosure by the Privacy Act. The final report includes AHDC's response to the draft report, but all personal identifying information has been redacted. Attachments 1 – 6 of AHDC's response are not included as part of the report. AHDC's complete response, including all attachments, will be transmitted to you under separate cover.

It is your responsibility to promptly transmit the attached report to Arkansas Human Development Corporation for resolution. However, we are providing them with a courtesy copy.

If you have any questions concerning this report, please contact Deborah Outten-Mills, Director, National Audit and Evaluations Office at (202) 693-7027.

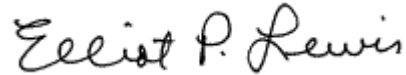
Attachment

**ARKANSAS HUMAN
DEVELOPMENT CORPORATION
LITTLE ROCK, ARKANSAS

**AUDIT REPORT ON
U.S. DEPARTMENT OF LABOR GRANT
NUMBER AC-10715-00-55**

Performance Audit for
Program Year July 1, 2000 through June 30, 2001

This audit was performed by Harper, Rains, Knight & Company, P.A., under contract to the Inspector General, and, by acceptance, it becomes a report of the Office of Inspector General.



Assistant Inspector General for Audit

Report Number: 21-04-001-03-365

Date Issued: March 22, 2004

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ACRONYMS

- AHDC - Arkansas Human Development Corporation
- CADF - Central Arkansas Development Fund
- CFR - Code of Federal Regulations
- CRT - Classroom Training
- DOL - U.S. Department of Labor
- DMSF- Division of Migrant and Seasonal Farmworkers
- ETA - Employment and Training Administration
- FSR - Financial Status Report
- GED - General Equivalency Diploma
- NFJP - National Farmworker Jobs Program
- OASAM - Office of the Assistant Secretary for Administration and Management
- OJT - On-the-Job Training
- OMB - Office of Management and Budget
- OIG - Office of Inspector General
- WE - Work Experience Training
- WIA - Workforce Investment Act

EXECUTIVE SUMMARY

The U.S. Department of Labor (DOL), Office of Inspector General (OIG), contracted with Harper, Rains, Knight & Company, P.A., to perform an audit of the Workforce Investment Act's National Farmworker Jobs Program to determine whether the program was operating in accordance with applicable regulations. DOL provides 53 grants to states and nonprofit organizations to operate the program within 47 states and Puerto Rico. We selected a statistical sample of nine grantees for review and tested the direct and indirect costs claimed for reimbursement by these grantees. Our objectives were to determine whether the costs claimed by the grantees for the period July 1, 2000 through June 30, 2001, under the DOL grants were reasonable, allowable, and allocable under the cost principles set forth in OMB Circular A-122 and grant guidelines and to determine that performance reported was accurate and properly supported.

This report presents the results of our audit of Arkansas Human Development Corporation (AHDC) under DOL Grant Number AC-10715-00-55. Under the authority of the Workforce Investment Act (WIA), DOL's Employment and Training Administration (ETA) awarded AHDC a grant in the amount of \$1,158,895 to provide training and services to eligible migrant and seasonal farmworkers throughout Arkansas to strengthen their ability to achieve economic self-sufficiency. AHDC operates an administrative office in Little Rock with satellite offices in Gosnell, Forrest City, Dumas, Hope, and Fort Smith from which it provides training and other assistance to the migrant and seasonal farmworkers. During PY 2000 AHDC placed 87 participants in unsubsidized jobs, and provided 712 with supportive services.

Our audit resulted in questioned costs of \$34,445 that were not in compliance with laws and regulations. We questioned \$24,888 because inadequate participant verification procedures allowed participants to be enrolled who did not have the required farmwork history, and \$9,557 because certain costs were improperly charged to the Farmworker grant that should have been charged to other grants or allocated among all of AHDC's grants. We also found that job placement totals reported to ETA were overstated.

AHDC's response to our draft report is included at Appendix A of this report. Pertinent comments from AHDC's response have been included in the body of the report. Based on additional evidence provided in AHDC's response, we reduced the amount of questioned costs from \$44,092 in the draft report to \$34,445 in the final report.

Recommendations:

We recommend that the Assistant Secretary for ETA:

1. Recover questioned costs of \$34,445.
2. Require AHDC to properly verify all required eligibility criteria including farmwork history and income, and all other items addressed in the NFJP Bulletin 00-02.

3. Request the Office of the Assistant Secretary for Administration and Management (OASAM) Regional Cost Negotiator to review the base being used for indirect costs.
4. Require AHDC to strengthen controls over the application of its indirect cost agreement to ensure all grants are properly charged indirect costs.
5. Require AHDC to adjust its performance reports for the improperly reported placements.

INTRODUCTION AND BACKGROUND

The Division of Migrant and Seasonal Farmworkers (formerly the Division of Seasonal Farmworker Programs) within ETA is responsible for administering the National Farmworker Jobs Program (NFJP). The intent of NFJP, under section 167 of the Workforce Investment Act, is to strengthen the ability of eligible migrant and seasonal farmworkers and their families to achieve economic self-sufficiency through job training and other related services that address their employment related needs. Assistance from the NFJP is accessed through the NFJP grantee partners and local One-Stop Centers.

The Arkansas Human Development Corporation (AHDC) is a private, nonprofit organization whose primary purpose is to administer the farmworker program in Arkansas and to provide skills training programs to eligible individuals.

AHDC was awarded a grant in the amount of \$1,158,895 to provide training and services to eligible migrant and seasonal farmworkers. AHDC operates an administrative office and education center in Little Rock, Arkansas, and satellite offices in Gosnell, Forrest City, Dumas, Hope, and Fort Smith. These offices are located in areas that maximize availability to the migrant and seasonal farmworkers. AHDC also administers several other grant programs, the largest being an emergency assistance program for low-income migrant and seasonal farmworkers through the U.S. Department of Agriculture.

AHDC provides the following types of training to participants:

1. Classroom training- This training includes general employment skills classes and vocational and technical job training. General employment skills and vocational and technical job training are taught by vocational schools and community colleges.
2. On-the-job training- This training activity involves a contractual placement of a participant in an actual work environment. This allows an employer to hire an employee and be reimbursed up to 50 percent of the wages paid during a specified training period.
3. Work experience- This training helps provide non-farmwork employment experience in order to make a participant more attractive to prospective employers. In this situation, the participant is paid by AHDC and placed in the public or private nonprofit sector to obtain general employment skills.

AHDC also offers other related assistance services, including emergency services to meet shelter and transportation needs, pesticide safety training while still in farmwork, and referrals to other assistance providers.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of our audit were to determine whether the costs claimed by AHDC for the period July 1, 2000 through June 30, 2001, under the DOL grant were reasonable, allowable, and allocable under the cost principles set forth in OMB Circular A-122 and grant guidelines and to determine that performance reported was accurate and properly supported.

Our audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our audit included such tests of the accounting records and other accounting procedures, as we considered necessary in the circumstances.

Our audit was performed using the criteria we considered relevant. These criteria included those established by the Federal Government in: OMB Circulars A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Non-Profit Organizations*, and A-122, *Cost Principles for Non-Profit Organizations*; the *Workforce Investment Act of 1998 (WIA)*; 20 CFR Part 669 *National Farmworker Jobs Program under Title 1 of the WIA*; and 29 CFR Parts 95 and 96, *Administrative Requirements and Audits of Federally Funded Grants, Contracts, and Agreements*.

Management Controls

To meet the aforementioned objectives, we reviewed management controls over relevant transaction cycles. Our work on established management controls included obtaining and reviewing policies and procedures manuals, interviewing key personnel, and reviewing selected transactions to observe the controls in place. Our testing related to management controls was focused only on the controls related to our audit objectives of reviewing the reported cost and performance data and was not intended to form an opinion on the adequacy of management controls, and we do not render such an opinion. Weaknesses noted in our testing are discussed in the **Findings** section of this report.

Compliance with Laws and Regulations

In order to determine compliance with the above-mentioned laws and regulations, we performed detailed tests of transactions and tested a 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 reviewing the reported cost and performance data 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 non-compliance are discussed in the **Findings** section of this report.

Our sample universe of participants included both participants terminating during the period as well as those still enrolled at the end of the program year. In Program Year 2000, AHDC served 815 participants. Farmworkers who received emergency related assistance services, most commonly in the form of food assistance, comprised the largest group served totaling 712 participants (87 percent). Farmworkers who were placed in unsubsidized employment comprised the second largest group with a total of 87 participants (11 percent). We reviewed a base sample of 42 participant files. Our sampling technique was a random selection so that all participants had an equal chance of being selected. Our initial testing revealed weak verification procedures on some participants enrolled in training activities, and we selected an additional 33 participants involved in training programs during the year. Procedures performed on the selected participants included reviewing the eligibility determination, reviewing the types of services provided and the costs of those services, and reviewing the program outcome for those exiting the program.

The costs reported and performance reported by AHDC are presented on the Schedules of Costs Reported and Performance Reported in this report. These schedules, included as schedules A and B, respectively in this report, are based on the information reported to ETA in the Financial Status Report and the Program Status Summary.



HARPER, RAINS, KNIGHT
& COMPANY

Mr. Elliot P. Lewis
Assistant Inspector General
for Audit
Office of Inspector General
U.S. Department of Labor
Washington, D.C. 20210

We were engaged to perform a performance audit of National Farmworker Jobs Program Grant AC-10715-00-55 awarded to Arkansas Human Development Corporation (AHDC) by DOL. The audit was to determine whether the costs claimed by AHDC for the period July 1, 2000 through June 30, 2001, were reasonable, allowable, and allocable under the cost principles set forth in OMB Circular A-122 and grant guidelines, and whether the performance reported was accurate and properly supported. We were also to report our findings and recommendations in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Such standards require that we objectively and systematically examine evidence to provide an independent assessment of the performance of a government organization, program, activity, or function. We believe our audit provides such an assessment.

This performance audit was designed to provide reasonable assurance about compliance with significant laws, regulations, and other compliance requirements and to obtain an understanding of management controls that are relevant to the audit. For those management controls determined to be significant to the audit, we obtained sufficient evidence to support our judgments about those controls. An audit made in accordance with these standards provides reasonable assurance that its objectives have been achieved; but it does not guarantee the discovery of illegal acts or abuse. Our findings section of the performance report provides our conclusions on AHDC's compliance and controls.

Harper, Rains, Knight & Company, P.A.

February 27, 2004

FINDINGS

1. Ineligible Participants Were Enrolled In the National Farmworker Jobs Program

During Program Year 2000, AHDC provided training and services to over 800 participants, of whom 98 had received some type of training (CRT, WE, OJT). In testing the participants' eligibility, we initially selected a sample of 42 participants, which was comprised of 38 who received services only and 4 who received training. In our initial testing, we had concerns that verification forms were not being used as intended. It appeared that the forms were being filled out either by the AHDC staff, or the participant, not the employer. This concern led to additional procedures in which we contacted employers to independently verify the forms in the file. Of the four training participants, we found two that were ineligible, representing 50 percent of the training participants in our sample. Therefore, we expanded our sample by selecting an additional 33 training participants. Of the 37 participant files tested for eligibility, we found that 8 were ineligible, and we question \$24,888 for the 8 ineligible participants.

To be eligible under NFJP a person must be a disadvantaged migrant or seasonal farmworker, or their dependent, who has been primarily employed in agricultural labor that is characterized by chronic unemployment or underemployment during the 12-month eligibility period (12 months within the 24 months immediately preceding the application for services), and:

- Is a citizen, or someone authorized by the Attorney General to work in the U.S., and
- Is registered for military selective service, if a male applicant.

A migrant farmworker is a seasonal farmworker whose agricultural labor requires travel to the job site, without being able to return home to his/her permanent residence the same day.

Eight of 37 Training Participants (22 Percent) Sampled Were Ineligible

In our sample of 37 classroom-training participants, we found that 8 were ineligible for the program because they either (1) had not performed the farmwork as they had claimed, which we verified with the employer, or (2) the farmwork they used to qualify for the program occurred prior to the 24-month eligibility period requirement contained in NFJP Bulletin 00-02.

Responses received in our telephone verification process ranged from: (1) a farmer claiming the participant (his nephew) had never worked for him, to (2) a farmer stating that his farm had not been in operation since the 1990's, well outside the time claimed for one participant, to (3) a farmer recalling hiring the participant for "a couple of days" doing non-farmwork related tasks. Total questioned costs for these eight participants are \$24,888.

To demonstrate the magnitude of the internal control weaknesses, we projected the error rate to the universe of those that were enrolled in AHDC classroom training activities. We found that the projected costs of ineligible participants equaled \$55,157*.

AHDC's Response to the Draft Report and Auditor's Conclusion

Auditor's Note: AHDC included personal identifying information in its response which has been omitted from this report and a number put in place of the name used in the response.

AHDC stated the following:

The Auditor recommended that \$9,647 expended on (1) be questioned because his father was not a farm worker, but a farm owner. (1) was enrolled as a family of one and not as a dependent of his family. In fact (1)'s mother and father signed a notarized affidavit attesting to the fact that (1) worked for them on the farm and that he did not own any part of the farm. Under the rules of the NFJP this applicant would not be ineligible under these circumstances unless he was a dependent of his family.

(2)- The auditor questioned \$3,648.75 on this applicant. This applicant appeared to meet all conditions for enrollment in the NFJP. According to his application and supporting documentation, he was a farmworker and met income guidelines. As a result of the audit it was revealed that the applicant had falsified his application and enlisted the help of others to verify these false statements. We contacted the applicant and his family seeking repayment of funds expended on his behalf. It was determined the agency spent \$3648.75 on this applicant. The applicant refunded the entire amount, which we now have in our account pending the resolution of this audit.

Based on AHDC's response, we have concluded that (1) was eligible and have withdrawn questioned costs of \$9,647. We did not question any costs related to participant (2). However, we concur with the actions taken by AHDC.

AHDC provided additional documentation to verify the farmwork of seven of the eight participants we questioned. The additional documentation consists of letters from acquaintances, friends or instructors stating they had knowledge of the participants in question doing farmwork. Most of these letters contain no specifics of where the work was done or timeframes performed and none are considered adequate to refute the evidence gathered during the audit. There were also letters submitted from several people in the community including judges, church pastors, and businessmen stating that it was common practice for the farm labor to be paid in cash and farmers may be hesitant to confirm employment information. These letters are not deemed relevant to the audit, as the regulations over the program are unchanged by local work customs

* The \$55,157 is the point estimate of disallowed costs using a confidence limit of 90 percent.

or environments. Due to privacy concerns the documentation described above is not presented in Appendix A.

Our sample testing revealed that AHDC has weak management controls over its eligibility verification process. These weak controls are allowing the enrollment of participants that do not have the required farmwork background as set forth in the regulations of the program. Payments made to these participants would be unallowable and, therefore, we question the amounts paid to these ineligible participants.

Recommendations:

We recommend that the Assistant Secretary for Employment and Training:

- recover questioned costs of \$24,888; and
- require AHDC to properly verify all required eligibility criteria, including farmwork history and income, and all other items addressed in the NFJP Bulletin 00-02.

2. Costs Related To the DOL Youth Grant Were Charged To the DOL Adult Migrant Grant

During Program Year 2000 AHDC charged the costs of the DOL Youth Grant to the DOL Adult Grant. These costs included registration fees for a youth assembly, and equipment purchased for the youth. Total questioned costs are \$5,065.

DOL provided AHDC with two separate and distinct grants, one for adults and one for youth. Separate general ledgers were maintained for each grant. However, we found that costs for the youth grant were charged to the adult grant.

During our testing of cash disbursements, we found a disbursement for registration fees for the Martin Luther King, Jr. "I have a dream" National Youth Assembly. This was a youth related disbursement, but it was charged to the adult program. The fees totaled \$5,000. Also, in testing property and equipment transactions we found a disbursement for a fax machine that was purchased by AHDC to be used by youth personnel. The cost of the fax machine was \$65 and it was charged to the adult program.

OMB Circular A-122(B)(1) states:

. . . direct costs are those that can be identified with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization . . . and are to be assigned directly thereto.

The registration fees for the National Youth Assembly and the purchase of the fax machine were costs of the DOL Youth Grant and should have been charged to that funding source.

AHDC's Response to the Draft Report and Auditor's Conclusion

AHDC stated:

Management concurs with the auditor's findings and accepts their recommendation. The appropriate steps were taken and the NFJP was reimbursed for these expenses by the NFYP prior to the NFYP being closed-out June 30, 2002. Management, however, would like to express its belief that these charges were the result of problems encountered during the implementation of a new accounting package and not the result of any willful disregard of Department of Labor regulations.

While AHDC concurs with the finding and states that it has taken corrective action, ETA needs to confirm that corrective action has occurred.

Recommendation:

We recommend that the Assistant Secretary for ETA recover the \$5,065 in questioned costs.

3. Costs Related To the CADF Grant Were Charged To the DOL Adult Migrant Grant

AHDC charged costs incurred for the Central Arkansas Development Fund (CADF) Grant to the DOL Adult Grant. Included in these costs were charges for assembling pamphlets and a position announcement. The total questioned costs are \$1,440.

CADF is a fund that provides loans to low income individuals to assist in starting small businesses. This fund consists of Federal, state, and private money pooled to provide these loans. AHDC maintains a general ledger for this program to account for its activities. However, we found that costs for this grant were charged to the DOL adult grant as follows.

In testing cash disbursements for the DOL adult migrant program, we found two CADF related disbursements. The first, totaling \$963 was for the assembly of pamphlets, and included charges for color copies and folding. These pamphlets provided information about CADF and the services provided by AHDC in relation to CADF.

The second, totaling \$477, was for a position announcement in a local newspaper. The announcement was for an Americorps/Volunteers in Service to America (VISTA) worker, to work on a project assisting the CADF Revolving Loan Program.

OMB Circular A-122(B)(1) states “direct costs are those that can be identified with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization . . . and are to be assigned directly thereto.” The above costs can be identified with the CADF Grant, and should be charged to this funding source.

AHDC’s Response to the Draft Report and Auditor’s Conclusion

AHDC concurred with this finding and recommendation and stated that the CADF will reimburse the NFJP in the amount of \$1,440. ETA needs to follow up to ensure that the stated corrective action is taken.

Recommendation:

We recommend that the Assistant Secretary for ETA recover the \$1,440 in questioned costs.

4. Certain Costs Were Not Allocated To Other Grants That Benefited

AHDC charged 100 percent of costs that should have been shared with other grants to the DOL Adult Migrant Grant. We questioned \$3,052.

In testing cash disbursements, we found 11 disbursements that were directly charged to the DOL Adult Migrant Grant, but were not directly related to any particular cost objective. The charges included:

- An announcement for an administrative assistant with responsibilities for performing secretarial, purchasing, and other administrative functions,
- Postage meter fees,
- A FedEx billing to AHDC's CPA Firm,
- Complete cell phone invoices for AHDC's Executive Director,
- Multi-purpose checks with envelopes for the operating account,
- General office supplies,
- Computer and labor support performed at AHDC's central office,
- Membership fee to Little Rock Chamber of Commerce, and
- A lease payment for the main copy machine used by all AHDC employees.

Also, in testing property and equipment we found the following disbursements that were charged 100 percent to the DOL Adult Migrant Grant, but were not directly related to any particular cost objective: (1) a laptop computer used by the Executive Director, (2) a desktop computer used by AHDC staff, (3) a charge for a dolly used by all employees at AHDC's central office, and (4) disbursements for conference room furniture such as tables, chairs, shelves, and serving carts.

OMB Circular A-122 (C)(1) states "indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective."

The administrative costs discussed above cannot be identified with a particular cost objective. They should either be considered indirect costs, or allocated direct costs. In either case they must be allocated in accordance with a plan approved by the cognizant agency. The equipment purchases in question are not allowable as indirect costs, however the costs should have been allocated and shared by all the grants that would benefit.

To determine an amount to question, we developed a ratio of each grant's direct cost base in relation to the overall direct costs. This percentage was then multiplied by the total amount of misallocated costs (\$21,877) found during our review to determine the amount overcharged the DOL Adult Grant. The total amount of questioned costs based on this calculation is \$3,052.

AHDC's Response to the Draft Report and Auditor's Conclusion

AHDC stated:

Management disputes these charges. The laptop computer, office furnishings, dolly, cell phone, and chamber of commerce membership fee are all used to help the agency meet its responsibilities under the NFJP. On very few occasions is the equipment used for non-NFJP activities as approximately 90% of our business is related to NFJP.

We make no change in our recommendation. All of the items in question are items related to the Executive Director and the Headquarters and by nature benefit all programs operated. Our finding takes into account that approximately 90 percent of AHDC's business is related to NFJP. That is why we only question \$3,052 in costs of a total of \$21,877 which recognizes that 86 percent of the cost would have been paid by NFJP had the costs been properly allocated.

Recommendation:

We recommend that the Assistant Secretary for ETA recover questioned costs of \$3,052.

5. Indirect Cost Rate Agreement Was Incorrectly Applied

Indirect cost rates are established to allow for the equitable distribution of costs that are attributable to more than one cost objective. AHDC has an indirect cost agreement that allows indirect costs to be charged at a negotiated rate multiplied by AHDC's indirect cost base. The base chosen for AHDC is direct salaries and wages including fringe benefits.

We noticed that not all grants were being charged direct salaries in conjunction with carrying out grant activities. Without properly allocating the direct salaries to all grants, the indirect costs cannot be properly spread to the grants in accordance with the benefits received. Direct costs, including salaries, were not charged to the USDA Farmworker Weather Relief Grant, only a fixed administrative fee. Salaries were not charged to the CADF, because a volunteer is used for administrative functions. The guidance for indirect costs requires the application of indirect rates; even if the grant does not allow for indirect costs or has limits lower than the allocated amount. These costs, if not allowed under the grants in question, must be covered by non-Federal funds, and cannot be arbitrarily charged to other grants.

OMB Circular A-122, Attachment A. D. 3.c. Allocation bases states:

The essential consideration in selecting a method or a base is that it is the one best suited for assigning the pool of costs to cost objectives in accordance with benefits derived.

Under the current procedures used by AHDC, direct salaries do not represent the most equitable base to allocate indirect costs. However, AHDC does have the systems in place to manage the allocation of direct salaries to all grants, if procedures were modified to take advantage of the existing systems. If all direct salaries were charged properly to all grants, then direct salaries could be used as an equitable base for indirect costs. However, we believe that cost negotiators should review the use of volunteer labor as it relates to the application of indirect cost rates. Programs using volunteer staff are consuming resources that are funded by the indirect cost pool, but with no direct salary expense, they will not bear any indirect costs if direct salaries are used as the base for allocation.

In addition, AHDC's single auditors noted that the allocation of indirect costs is not made prior to reimbursement requests; therefore, estimates are used in determining amounts requested from DOL. This untimely allocation of indirect costs can cause reimbursements in excess of actual costs to occur, and lead to large amounts of cash on hand.

AHDC's Response to the Draft Report and Auditor's Conclusion

We concur with the auditor's recommendation that any grant received pay its fair share of cost under the approved indirect cost rate agreement. We also continue to believe that the flat administrative fee was adequate based on the short duration of the program and self-certification system mandated by the United States

Department of Agriculture and because it helped us meet our mandate to leverage other non-USDOL funds.

. . . Staff from the Regional Indirect Cost Negotiator's office visited AHDC during the week of February 18, 2002. A review of the agency's internal indirect cost allocation system for the Program Year following the OIG audit revealed that we were in compliance with applicable regulations. AHDC staff received technical assistance from the Indirect Cost Negotiator and guidance on how to respond to related audit questions.

The use of volunteer labor is not readily apparent in financial information and may impact the base used in allocating indirect costs. We do not know if this issue was covered in the review discussed.

Recommendations:

We recommend that the Assistant Secretary for Employment and Training:

- request OASAM's Regional Cost Negotiator to review the base being used for indirect costs in relation to the programs AHDC is operating to consider the impact of volunteer labor on the application of indirect cost rates; and
- require AHDC to strengthen its controls over the application of its indirect cost agreement to ensure all grants are properly charged indirect costs.

6. Job Placement Totals Reported To ETA Were Overstated

Job placement totals reported to ETA as summarized in **Schedule B** were overstated, because a number of the participants were ineligible or had not worked for the employer of record. Therefore, the data reported to ETA should be adjusted for these participants.

In addition to testing the 37 classroom-training participants for eligibility (see Finding 1), we also reviewed their job placement outcomes to determine the accuracy of the job placement totals reported. We recognized that not all classroom-training participants would have a placement outcome as they may still be enrolled, have dropped out before completion, or had other outcomes not resulting in a job placement. In our sample, 35 of the 37 participants were reported as job placements. We found that 11 participants had been incorrectly reported as entering unsubsidized employment.

Eight of the 11 questioned placements were ineligible for the program, as discussed in our Finding No. 1. For another three placements, the alleged employers had no records of employing the participants.

AHDC's Response to the Draft Report and Auditor's Conclusion

Auditor's Note: AHDC included personal identifying information in their response which has been omitted from this report and a number put in place of the name used in the response.

Our draft report stated that 15 participants had been incorrectly reported as placements. After reviewing additional information provided by AHDC in its response to the draft report, we have reduced the number of incorrectly reported placements by four (from 15 to 11).

AHDC contested our initial finding that (1) was ineligible, stating that when the participant came into the office that he was accompanied by a female friend with whom he was living, and a child that was theirs, and provided an address different than that of the parents. Based on AHDC's response, we concluded that (1) was eligible and the reported placement was correct.

AHDC stated that participants (5), (6), and (11) returned to farmwork after completing or quitting training and were properly reported as "entered unsubsidized employment," as allowed by program regulations. While we agree that the grantee reported the outcomes correctly (or as allowed by the program), we do not believe ETA should consider returning to farmwork, after the grantee expended funds to train the participant in another occupation, a "positive outcome."

Eight participants were deemed ineligible for the program, as detailed in Finding 1, so any placement they had was a moot point. For the remaining three participants, we contacted the employers with which the participants were allegedly placed and the employers denied having hired the participants. AHCD provided no additional information regarding these reported placements in its response to the draft report.

Our sample testing showed 11 incorrect outcomes reported out of a total of 37 (30 percent). Based on this rate, we would expect 26 of the total 87 placements reported to be in error. This incorrect reporting skews the overall results for outcomes in relation to costs. This is very important in the case of AHDC, where a small segment of participants represents a large portion of the costs.

Recommendation:

We recommend that the Assistant Secretary for ETA require AHDC to adjust its performance reports for the incorrectly recorded placements.

ARKANSAS HUMAN DEVELOPMENT CORPORATION
LITTLE ROCK, AR

SCHEDULE OF COSTS REPORTED
Program Year Ended June 30, 2001

<u>Financial Status Report</u>	<u>Reported</u>
1. Classroom Training	\$ 319,502
2. On the Job Training	6,913
3. Work Experience	11,835
4. Training Assistance	518,124
5. Services Only	61,687
6. Administration	<u>227,038</u>
7. Total	<u>\$1,145,099</u>

TERMINOLOGY USED

Classroom Training	Costs related to participants provided some form of organized classroom training. Generally includes tuition costs, stipends, and support provided while in training.
On the Job Training	Costs paid to reimburse an employer for half of the wages paid to a participant during a contractual training period. Also includes support paid to the participant.
Work Experience	Wages paid to a participant placed in a job by the grantee in order to assist the participant by gaining practical work experience.
Training Assistance	This is a category carried over from JTPA generally not used under WIA reporting.
Services Only	Costs related to participants that are only provided support service, with no enrollment in training programs.
Administration	Salaries and overhead costs related to general administration of the program and not directly providing program services. Costs are limited under the grant agreement.

**ARKANSAS HUMAN DEVELOPMENT CORPORATION
LITTLE ROCK, AR**

SCHEDULE OF COSTS REPORTED

**Supplemental Information
Program Year Ended June 30, 2001**

<u>Category</u>	<u>Incurred Costs</u>	<u>Subtotals</u>
1. Classroom Training		
A. Tuition	\$ 127,136	
B. Allowances	141,113	
C. Supportive Services	<u>51,253</u>	\$ 319,502
2. On the Job Training		
A. OJT Contract Payments	\$ <u>6,913</u>	\$ 6,913
3. Work Experience		
A. Stipends	\$ <u>11,835</u>	\$ 11,835
4. Training Assistance		
A. Salaries and Fringe Benefits	\$ 341,496	
B. Travel Costs	54,263	
C. Office Costs & Overhead	<u>122,365</u>	\$ 518,124
5. Services Only		
A. Supportive Services	\$ <u>61,687</u>	\$ <u>61,687</u>
6. Administration		
A. Indirect Administration	\$ 91,025	
B. Salaries and Fringe Benefits	86,277	
B. Admin Related Overhead	<u>49,736</u>	\$ <u>227,038</u>
7. Total	<u>\$ 1,145,099</u>	<u>\$ 1,145,099</u>

Note: The above information is not required to be reported to ETA, and was created by reviewing the financial records used in preparation of the Financial Status Report.

**ARKANSAS HUMAN DEVELOPMENT CORPORATION
LITTLE ROCK, AR**

SCHEDULE OF PERFORMANCE REPORTED
Program Year Ended June 30, 2001

<u>Category</u>	<u>Planned</u>	<u>Reported</u>
Total Participants	541	815
Total Terminations	541	803
Entered Unsubsidized Employment	85	87
Direct Placement	5	5
Indirect Placement	80	82
Also Obtained Employability Enhancement	-	-
Employment Enhancement Only	-	-
Services Only	450	712
All Other Terminations	6	4
Total Current Participants (End of Period)	0	12

Note: The Program Status Summary Forms used were brought forward from the previous JTPA program. Many of the categories above were not required to be reported under the new guidelines.

TERMINOLOGY USED

Participants	Disadvantaged migrant and seasonal farmworkers and their dependents
Total Participants	Participants that were provided any services during the program year. Includes participants carried over, new participants, and those exiting during the program year.
Total Terminations	Participants that exited the program during the year.
Entered Unsubsidized Employment	Participants placed in a non-federally subsidized job.
Direct Placement	Participants referred directly to a job with no training services provided. (Detail not required to be reported under WIA)
Indirect Placement	Participants placed in a job after training or enhancement services. (Detail not required to be reported under WIA)
Also Obtained Employability Enhancement	Participants placed that also received services improving job prospects, such as completing GED program, obtaining a degree, completing occupational training. (Detail not required to be reported under WIA)
Employment Enhancement Only	Participants not placed in a job but exiting the program with enhancements to improve job prospects. See examples above. (Detail not required to be reported under WIA)
Services Only	Participants that exited the program with support services only, with no training or referral to employment.
All Other Terminations	Participants that exited the program that do not fall into any other termination category.

Appendix A
Response to Draft Report by Arkansas Human Development Corporation



300 South Spring Street, Suite 800 / Little Rock, Arkansas 72201-2424
Area Code (501) 374-1103 / FAX # 501-374-1413

DR. CLINTON R. HAMPTON
Board Chairperson

CLEVON YOUNG
Executive Director

September 24, 2003

Deborah Outten-Mills
Director
National Audit and Evaluations Office
U.S. Department of Labor
Office of Inspector General
200 Constitution Avenue, NW, Room N-5620
Washington, DC 20210

RE: Audit Report on Department of Labor Grant Number AC-10715-00-55

Dear Ms. Outten-Mills:

Enclosed, please find Arkansas Human Development Corporation's (AHDC's) initial comments to the draft audit report issued on August 29, 2003 for the grant referenced above. We are aware that the contents of this response are subject to the Freedom of Information Act and may become a part of discovery proceedings.

AHDC's initial response includes an executive summary, numbered responses to each of the audit findings, along with management's determination, and a section of attachments that support each of management's conclusions. The final section is a recommendation on the amount of questioned and/or disallowed costs.

Should you have questions about any portion of this response, please do not hesitate to contact me at (501) 374-1103.

Respectfully,


CLEVON YOUNG
Executive Director

Attachments: Initial Audit Response

CC: AHDC Board of Director's

ORIGINAL

ARKANSAS HUMAN DEVELOPMENT CORPORATION

EXECUTIVE SUMMARY

The Arkansas Human Development Corporation (AHDC) was selected by the United States Department of Labor, Office of Inspector General (OIG) to undergo an audit of its fiscal and programmatic activities in regard to its Program Year 2000 responsibilities. The audit began in December of 2001 and an exit conference was held on January 18, 2002 though we continued to send additional documentation to representatives of Harper, Rains, Stokes & Knight, P.A. for some time after this date.

The auditors appeared to be very professional but did not have a great deal of understanding as it related to the activities of private non-profit corporations and specifically about our specific activities under the National Farmworker Jobs Program (NFJP). Their experience appeared to be heavily weighted with private sector companies and their appeared to be a built in bias against any information and documentation that did not come directly from the farmer or grower. Also, while auditors are required to maintain a professional detachment from the entity that it is auditing, these auditors went a step further by calling into question the actions of local staff as it related to contact with the growers, which demonstrated an utter lack of understanding of rural agrarian economies.

As a result of the aforementioned the auditors developed a draft report that is full of errors, innuendo and that has surely damaged our relationships with farmers and growers in one particular area of the state. The approach taken by the auditors of telephoning farmers and growers without any advance notice created an environment of fear and intimidation that lead to conflicting information and in some cases outright denial of documented actions related to the NFJP. The auditor's relied strictly upon telephone conversations in these situations, which the Grantees are not permitted to do. Moreover, the auditors appeared to place NFJP staff in the role of investigators of farmers, growers, employers, and customers, rather than simply fulfilling our responsibility to use our best efforts to verify the information contained in each application. And, while our staff has worked in most areas of the state for many years and know well the barriers and parameters that must be maintained to continue to effectively work in these communities the auditor's either were unaware of these limitations and/or did not consider them to be of any importance.

The auditors made five recommendations to the Assistant Secretary for ETA: The recommendations are as follows:

1. Recover questioned costs of \$44,092.
2. Require AHDC to properly verify all required eligibility including farmwork history and income, and all other items addressed in the NFJP Bulletin 00-02.

3. Request the Office of the Assistance Secretary for Administration and Management (OASAM) Regional Cost Negotiator to review the base being used for indirect costs.
4. Require AHDC to strengthen controls over the application of its indirect cost agreement to ensure all grants are properly charged indirect costs.
5. Require AHDC to adjust its performance reports for the improperly reported placements.

The following report will respond to each of the allegations and recommendations made by the auditors. We believe that the most serious of these allegations, those regarding ineligible applicants can be addressed in very short order. The other recommendations had been implemented prior to the auditors leaving the site, were in dispute as to how the matters should be handled or no request for adjustment had been made.

Arkansas Human Development Corporation

Preliminary Response to Audit conducted by Office of the Inspector General
United States Department of Labor

Program Year 2000 (July 1, 2000 through June 30, 2001)

1. Enrollment of Allegedly Ineligible Customers

The Arkansas Human Development Corporation (AHDC) employs an extensive system of checks and balances to ensure that only eligible customers receive services under its programs. AHDC makes concerted efforts to follow the directions given in NFJP Bulletin No. 00-02, which requires that we implement an eligibility determination process, generate the documents needed to support enrollment decisions, require applicants to sign statements attesting to the truth of the applications and require staff to sign statements that their decisions have been based on all the available information. Moreover, all of the aforementioned factors are a part of our internal control system that strives to ensure that decisions by both staff and management are reasonable, promote the development of front-line leadership and is customer focused.

AHDC maintains such a system and the system has passed the scrutiny of several national office monitoring visits over the years. In fact, our Operations Manual was held out as an example by other national office staff, specifically [REDACTED], of how other NFJP programs might develop their own manuals.

Now the auditor's have singled out several applicants as not meeting the specific requirements of the NFJP and they have given specific examples as to why they are ineligible. The cases will be discussed in alphabetical order with the understanding that [REDACTED] cases, require more exposition.

- ① The auditor's recommended that \$9,647.00 expended on [REDACTED] be questioned because his father was not a farm worker, but a farm owner. [REDACTED] was enrolled as a family of one and not as a dependent of his family. In fact [REDACTED] mother and father signed a notarized affidavit attesting to the fact that [REDACTED] worked for them on their farm and that he did not own any part of the farm. Under the rules of the NFJP this applicant would not be ineligible under these circumstances unless he was enrolled as a dependent of his family.

AHDC is required to complete a needs assessment and accompanying narrative on each applicant. The narrative explains any barriers identified on the needs assessment and the narrative on this applicant simply stated that he receives some support from his family. Nearly 90% of applications contain this wording but this does not meet the definition of a

dependent, which he was clearly not. When he came to our office he was accompanied by an adult female and a child who was presumed to be his. AHDC shouldn't be held responsible for what the family later told people who called them out of the blue and we do not believe it was unreasonable to rely upon the notarized statement contained in our files, which demonstrated that he worked for wages and was not an owner of any part of the his parents farm. The \$9,647.00 expended on this customer should therefore be considered an allowable cost. (See Attachment 1 for a copy of the notarized verification form).

②* The auditor's questioned \$3,648.75 expended on this applicant. This applicant appeared to meet all the conditions for enrollment in the NFJP. According to his application and supporting documentation, he was a farmworker and met the income guidelines. As a result of the audit it was revealed that the applicant had falsified his application and enlisted the help of others to verify these false statements. We contacted the applicant and his family seeking repayment of funds expended on his behalf. It was determined that the agency spent \$3,648.75 on this applicant. The applicant refunded the entire amount, which we have in our bank account pending the resolution of this audit.

The auditor's questioned the farmworker verification statements in each of the following applicant's files. To further meet the conditions of Bulletin 00-02, we sought additional documentation on their farmwork backgrounds, and obtained statements to describe the cash-preferred manner of doing business in these farming communities. The named applicants and the additional documentation that was obtained are discussed below.

According to information obtained from regional office staff through letters from local leaders and elected officials, farmers in the area continue to pay employees in cash, resist efforts to document their activities, and do not willingly verify the employment of farmworkers. (See Attachment 2 for a copy of this documentation, which includes a letter from the county judge serving much of the area). Staffs often have to rely on their own knowledge of farmworkers, growers, and customers in an area to know where to seek documentation. The auditor's unwillingness to accept the Farmwork Verification Forms contained in our files, forced staff to obtain independent verification from co-workers and other non-family members with knowledge of the customer's farmwork history to document the employment of some customers. (See Attachment 3 for copies of the statements used to further verify the farmwork of these customers).

Farmwork Verification Results:

- ③ Statement from independent source that confirms farm work.
- ④ Statement from independent source that confirms farm work.
- ⑤ Statement from independent source that confirms farm work.

6

Statement from independent source that confirms farm work.

7

Statement from independent source that confirms farm work.

8

Statement from independent source that confirms farm work.

9

Statement from independent source that confirms farm work.

10

– Recantation from Farmer that confirms farm work. It is worth noting that when this customer’s farmwork employer received the telephone call questioning the applicant’s farmwork he initially denied that the person had performed farm labor for his operation. Once he learned the purpose of the call and that we were not trying to monitor his activities or get him into any kind of trouble with the authorities he changed his mind and verified the customer’s employment.

The auditor’s allege that some applicants performed work that was outside of the eligibility period. A review of the thirty-seven (37) records selected by the auditors found only two applicants where any question at all about the applicant’s period of work could be raised. In one case, that being a portion of the farmwork occurred slightly beyond the eligibility period. This applicant’s earnings were prorated by \$4,000 to ensure that only the work performed during the eligibility period were included. Prorations and other calculations are performed routinely because rarely does an applicants work and income fit neatly in a 12 to 24 period and that is why we are allowed to use any 12 consecutive months within the past 24 month period. (See Attachment 4 for copies of the verification form and relevant sections of the application).

A similar situation occurred with another applicant, who had performed farmwork before the 12-month period used to determine eligibility. In this case a fair proration could not be performed because the farmer only provided information as to the months and years of employment and could not be specific about the actual days of employment. Only a one-month proration would have been required and this would not have made a difference in the applicant’s eligibility. (See Attachment 5 for copies of the verification form and relevant sections of the application).

It is our belief that ² was the only ineligible applicant enrolled into the program and that the Assistant Secretary should require repayment of the \$3,648.75 that was expended upon him.

2. Recover \$5,065 Originally Charged to the National Farmworker Jobs Program, under the Adult Program.

The previously identified charge of \$5,065 could have been charged to the National Farmworker Youth Program (NFYP) or the National Farmworker Jobs Program (NFJP), since youth are eligible under both programs. Although youth activities were authorized

under both programs, the auditor's felt the more appropriate vehicle to pay these expenses was the NFYP.

Management concurs with the auditor's finding and accepts their recommendation. The appropriate steps were taken and the NFJP was reimbursed for these expenses by the NFYP prior to the NFYP being closed-out June 30, 2002. Management, however, would like to express its belief that these charges were the result of problems encountered during the implementation of a new accounting package and not the result of any willful disregard of Department of Labor regulations.

3. Direct Costs – Overcharge of \$1,440 by the Central Arkansas Development Fund.

The auditor's identified \$1,440 that was incorrectly charged to the NFJP. These expenses were directly related to the Central Arkansas Development Fund (CADF), a program that bears little relationship to the NFJP. Management believes the oversight was not willful and resulted from problems related to the installation of new accounting software.

Management concurs with the auditor's finding and recommendation and the CADF will reimburse the NFJP in the amount of \$1,440.

4. Indirect Cost – alleged overcharges to National Farmworker Jobs Program (NFJP) in the amount of \$3,052.

Management disputes these charges. The laptop computer, office furnishings, dolly, cell phone, and chamber of commerce membership fee are all used to help the agency meet its responsibilities under the NFJP. The laptop computer and cell phone were purchased to help the executive director remain in constant contact with regional office staff, all of whom work for the NFJP. Because we provide emergency assistance to customers on a statewide basis it is necessary that staff, customers and vendors be able to contact the executive director on short notice. On very few occasions is the equipment used for non-NFJP activities as approximately 90% of our business is related to the NFJP.

The office furnishings, dolly and chamber of commerce memberships were purchased for the direct benefit of the NFJP. As property records and past board minutes will indicate the agency hadn't invested in such articles in many years. The recent purchases outlined above were made to enhance the agency's capacity to work in a cooperative manner with the One-Stop Career Centers. Furnishings are substantially used to host NFJP customers, hold training sessions for NFJP staff, and conduct meetings with Arkansas Career Center Partners. The dolly facilitates the movement of supplies to our regional offices and the chamber of commerce membership is used to help the agency identify employers in need of employees. A central office chamber of commerce membership is needed because in

some cases the companies we encounter in regional office areas have their home offices in Little Rock and this organization is important to our job development efforts.

We therefore dispute the auditor's finding in this area, and believe the questioned amount should be disregarded as de minimus.

5. Indirect Cost Rate Agreement Was Incorrectly Applied.

Management completely disagrees with the auditor's finding that the Indirect Cost Agreement was incorrectly applied. AHDC followed the letter and the spirit of the negotiated agreement and did not spend more than the approved amount available for indirect costs, based on the approved formula. However, due to unexpected problems in the transition from the Peachtree Accounting Package to Great Plains Dynamics, indirect costs were not allocated on a monthly basis for a part of Program Year 2000. The appropriate indirect costs were allocated and reimbursed at the close of the grant year. This was an isolated incident as past audits will demonstrate that indirect costs has been handled appropriately in the past and that such procedures were in place at the time of the audit and being followed for Program Year 2001.

Management has the requisite procedures in place to allocate, track, and reimburse appropriate grants for indirect costs. Management contacted the Regional Indirect Cost Negotiator's office for additional technical assistance to further ensure that Arkansas Human Development Corporation's (AHDC's) systems and procedures were in accord with the auditor's recommendations and Department of Labor regulations.

A technical assistance visit by Regional office staff confirmed that the appropriate procedures were in place and functioning. AHDC is in constant contact with the Regional Cost Negotiator's staff and they are very efficient in terms of asking and answering questions about our systems. They have worked with the Agency over the years and have some impression of our history and of the kinds of grants that we administer. If the OIG's auditor's have a dispute with the direction that AHDC receives from the Regional Office, we respectfully request that the Assistant Secretary give deference to the Regional Office, which works extremely well with the grantees on the application of indirect costs procedures and methodology. A private for-profit company with little knowledge of the NFJP's goals and history would find it difficult to provide the level of service that is expected and received from the Regional Offices.

One of the programs that came to the OIG auditor's attention, for example, was a \$200,000 grant from the United States Department of Agriculture (USDA) to provide weather disaster assistance aid to negatively impacted seasonal and migrant farmworkers. The grant primarily provided related assistance services and included a ten percent (10%) limit for administrative costs. AHDC charged a flat rate of \$20,000.00 for administrative cost, which we believe was sufficient for indirect costs as well because existing staff

provided all of the services and all of the services were going to customers eligible for the NFJP.

This method was selected because the previous year AHDC received a \$245,000.00 grant to provide essentially the same services from the United States Department of Labor (USDOL), which is its cognizant agency. Here a flat administrative fee of 10% was charged and it was deemed appropriate by the USDOL because overhead expenses were already being provided by the existing NFJP grant. The statement of work which was attached to the November 3, 1998 Memorandum, stated that "The Grantee will use existing outreach, supplemented by other approaches when appropriate, to locate and identify eligible migrant and seasonal farmworkers in need of these supportive services." The memorandum also specified that the Weather Disaster Assistance Funds (WDAF) should be accounted for as Program Year 1998 funds, with the primary difference being that Program Year 1998 funds had a 20% limitation on administrative costs and the WDAF funds had a 10% limitation.

AHDC treated both grants in a consistent manner and fails to see why there is such conflict between the OIG's auditors and those of the Regional Cost Negotiator, which has intimate knowledge of our activities. We also fail to see why we as the grantee should be placed in the middle of this dispute. If there is disagreement it should be handled within the USDOL and the grantee should be given clear instructions as how to proceed. As it stands, the regional office is opposed to the recommendation of the OIG auditors.

We concur with the auditor's recommendation that any grant received pay its fair share of cost under the approved indirect cost agreement. We also continue to believe that the flat administrative fee was adequate based on the short duration of the program and the self-certification system required by the United States Department of Agriculture and because it helped us meet our mandate to leverage other non-USDOL funds.

As was previously stated, Staff from the Regional Indirect Cost Negotiator's office visited AHDC during the week of February 18, 2002. A review of the agency's internal indirect costs allocation system for the Program Year following the OIG audit revealed that we were in compliance with applicable regulations. AHDC staff received technical assistance from the Indirect Cost Negotiator and guidance on how to respond to related audit questions.

6. Overstatement of Job Placement Totals

The auditor's determined that several customers had been reported incorrectly as customers because they went back into farmwork after training. Returning to farm labor in a full time capacity or upgraded capacity is an allowable activity. The auditor's appeared to be under the impression that only positions outside of farmwork were eligible occupations, regardless of the type of training received or the occupation obtained. We agree with the auditor's, however, that a minor adjustment to the reports may be

necessary but only as they regard the ineligible applicant and any applicant going back to farm labor who was reported to be working less than 32 hours per week. Following is our assessment of each of the applicants that were brought to our attention and their status as we view it.

Indirect Placements

Responses

- ② This person entered employment as a paramedic but a review of his file revealed that he provided questionable information to staff and was in fact ineligible for the NFJP. The Grantee has recaptured the funds spent on this customer and believes he should be removed from the Program Planning Reports as a positive placement and reported instead as an other termination. 1
- ① The auditors incorrectly determined that this applicant was a dependent on the basis that his file indicated that he received assistance from family members. This question is posed to customers to help determine if related assistance services are needed. Most participants receive assistance from family and friends because they can't survive on their meager earnings. When presented to this office the customer was accompanied by a female friend with whom he was living, a child that was theirs, and provided an address that was different from that of his parents. He was an adult and there was absolutely no indication that he was a dependent. He went back to farm labor in a full time capacity and should be considered a positive placement because he was working 35 hours per week at \$6.25 per hour. 2
- ③ This person should be considered a positive termination because he went back to the farm, working 40 hours a week at a rate of \$6.20 per hour. 3
- ⑭ This person should be considered a positive termination because he went back to the farm, working 40 hours a week at an hourly rate of \$6.20. 4
- ④ An Independent source verifies that customer opened auto body repair business prior to moving to Georgia. 5
- ⑪ This person should be considered a positive termination because he went back to the farm, working 40 hours per week at \$7.20 per hour. 6
- ⑤ This customer left the area and could not be contacted. 7
- ⑥ An Independent source verifies that customer was employed as an auto body repairman at both Auto Body Repair Shop and Auto Body Repair Shop in should be considered a positive placement as it was documented that he held several training related jobs during the period as was believed to be starting his own auto body repair shop. 8

		Response
(12)	This person should be considered a positive termination because he went back to the farm, making \$6.25 per hour for a 40-hour week.	9
(13)	This person should be considered an other termination because he had a stroke that severely limited his prospects for other private sector employment.	10
(8)	This customer could not be contacted for follow-up purposes.	11
(9)	This customer went to work as a Licensed Practical Nurse for Nursing Home in Wynne, AR and later moved to the _____ in Jonesboro, AR.	12
(10)	Barbershop owner verifies that customer was employed in his shop at an hourly rate of \$9.00.	13

Backup documentation for these applicants can be found in Attachment 6.

Management partially concurs with the auditor's finding and believes minor modifications may be required for the end of year reports for Program Year 2000.

Telephone calls by the auditor's to area farmers have only served to exacerbate the tension between workforce development programs and farm labor employers causing many to become even more closed-mouthed because they believe their financial practices will be brought to the attention of Internal Revenue Service (IRS) authorities or to other regulators. There has always been an uneasy tension between growers and organizations such as AHDC because many of the growers believe that we are taking away their source of labor. We walk a narrow road trying to foster more openness while also protecting the interests of farmworkers. The auditor's confirm that telephone calls to area farmer's revealed varied and conflicting statements. It was very naive and unrealistic to believe that a telephone call from someone with which they had no connection or knowledge, even if using the name of Arkansas Human Development Corporation and central office staff, would elicit anything other guarded and misleading statements.

We concur with the auditor's recommendation that our verification and job placement systems be updated. In light of the auditor's findings, we've undertaken a complete review of our intake, eligibility determination, job placement, and follow-up procedures. The following changes were identified and immediately implemented:

- i. AHDC will ensure that 100% of customers are certified as eligible before enrollment.
- ii. Employment Verification forms (farmwork) will be mailed to the employer (farmer/grower) by the local office, and verified through a follow-up telephone call by central office staff. Verification forms were modified using the auditor's recommendations while they were on site.

- iii. Only when a farmwork employer declines to provide such verification will steps be taken to verify employment by other means, such as through co-workers or by non-relatives with knowledge from the local community.
- iv. Verification of job placements (post intensive or training services) will occur through the mailing of similar verification forms directly to the employer. This information will be verified through a follow-up telephone call.
- v. Only when the employer refuses to verify employment and cannot be reached will alternative methods such as contacting the employee or other staff be utilized.
- vi. The auditor's on-site recommendation to revise the farmwork verification form to include signature lines for the customer, employer and regional office staff person has already been implemented. (See Attachment 7 for a copy of the revised Farmwork Verification Form as required by the OIG auditor's).
- vii. A 20% sample, up from 10%, of those in training as well as those that have been job placed will be conducted two times per year. The verification process has been revised to require that every piece of documentary evidence in a customer's file be verified again. This means that the Internal Monitor will confirm farmwork statements, I-9 documents, and selective service information.

Information obtained from the sample will also be designed to gauge how diligently the staff and customers are working to locate potential job placement sites, highlight any underlying issues between the customer and staff or between the customer and the training site or employer.

Conclusion:

Based on the explanation, additional documentation and modifications made to our existing systems and confirmed by the auditor's while on-site, it is our recommendation that the audit be resolved with a finding of disallowed costs in the amount of \$3,648.75 for the enrollment of one ineligible applicant and \$1,440 in disallowed costs for charges to the NFJP that should have been covered by the Central Arkansas Development Fund, for a total disallowed costs figure of \$5,088.75.

Attachments 1-6 are not included in the issued report due to the inclusion of personal information and the related privacy considerations. The response in its entirety has been provided to Department of Labor Employment and Training Administration officials for the resolution process.

ATTACHMENT 7



300 South Spring Street, Suite 800
Little Rock, Arkansas 72201-2424

VERIFICATION OF FARMWORK FORM

Date: _____

Name: _____ (SSN: ____ - ____ - ____) has applied for employment and training services through our corporation and has listed you as a past employer. We need your assistance to verify information which determines whether this person is eligible for enrollment in our program. Your response will be kept confidential and will only be used to determine program eligibility.

Please check the information below and make corrections if needed. Please sign and enter the date. Thank you for your assistance.

Sincerely,

AHDC Staff Signature

I request and authorize verification or correction of the information I have provided to Arkansas Human Development Corporation. Thank you for your help.

Applicants Signature _____

EMPLOYER NAME: _____

EMPLOYER ADDRESS: _____

EMPLOYER TELEPHONE: _____

Date From	Date To	Amount Earned	Type of Work

Employers Signature: _____ Date: _____

Verified By: _____ Date: _____

Verification Contact: _____ Date: _____