ARKANSAS
Human Development Corporation

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DR. CLINTON R. HAMPTON
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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

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 , 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 cases, require more exposition.

1 The auditor's recommended that $9,647.00 expended on be questioned because his father was not a farm worker, but a farm owner. was enrolled as a family of one and not as a dependent of his family. In fact mother and father signed a notarized affidavit attesting to the fact that 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 1for 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).

2

It is our belief that 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 deminimus.

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 naïve 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

ARKANSAS
Human Development Corporation

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:_____

FORM #55 REVISED 06/02