U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING ADMINISTRATION

PERFORMANCE AUDIT OF HEALTH COVERAGE TAX CREDIT (HCTC) BRIDGE AND GAP PROGRAMS

Date Issued: September 30, 2005
Report Number: 02-05-204-03-330

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

BRIEFLY…

Highlights of Report Number: 02-04-204-03-330, to the Assistant Secretary for Employment and Training. September 30, 2005

WHY READ THE REPORT

The Trade Adjustment Assistance Reform Act of 2002 established new mechanisms by which certain Trade Adjustment Assistance (TAA) participants, as well as eligible Pension Benefit Guaranty Corporation (PBGC) pension recipients, could receive assistance in covering the cost of health insurance coverage. The primary mechanism for such assistance is a 65 percent Federal tax credit administered by the Internal Revenue Service. The credit became available on an advance basis on August 1, 2003. The Act also established an additional mechanism, which was intended to be used as a Bridge and Gap during the IRS's HCTC advance option implementation and enrollment processes, by authorizing the use of National Emergency Grant (NEG) funds under WIA. This report discusses what barriers limited program participation and how NEG funds continue to go underutilized.

WHY OIG DID THE AUDIT

The OIG conducted a performance audit to answer the following questions:

- Did a significant number of potentially eligible individuals avail themselves of the program and were appropriated funds being utilized?
- What were the barriers that resulted in low individual participation?
- Why did most states not participate in the HCTC Bridge and Gap programs?
- Did states comply with pertinent provisions set forth in the Trade Adjustment Assistance Reform Act of 2002, Employment and Training Administration (ETA) implementation guidance, and Federal laws and regulations?

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:

http://www.oig.dol.gov/public/reports/oa/2005/02-05-204-03-330.pdf

September 2005

HEALTH COVERAGE TAX CREDIT BRIDGE AND GAP PROGRAMS

WHAT OIG FOUND

- Participant and expenditure levels in the Bridge and Gap programs were low. Nationally, at June 30, 2004, Bridge and Gap participant levels were 4.8 percent of the potentially eligible population, and expenditure levels were less than 7 percent of appropriated funds.
- Several barriers led to low participation. The primary barriers included: participant's share of premium cost, up-front participant cost, most states not electing to participate in the program, effective exclusion of the PBGC population, program awareness, overall program complexity, and lack of timely processing of NEG grants.
- Lack of communication between states and the IRS-HCTC, which left unchecked, could lead to Federal funds being at risk.
- Instances where ETA grant management policy needs reinforcement to ensure grants are operating as intended and that Federal funds are being used efficiently.

WHAT OIG RECOMMENDED

We recommended that the Assistant Secretary:

1. Conduct an immediate needs assessment of NEG funds.
2. In consultation with state officials, Federal lawmakers and partnering Federal agencies develop remedies to identified barriers.
3. Work with nonparticipating states to address identified barriers to enhance participation.
4. Work with IRS-HCTC office to implement a consistent system of communication between the states and the IRS-HCTC and ensure that proper controls are instituted to safeguard Federal funds. Reinforce ETA grant management policies, which require monitoring and assessments on a regular basis to ensure compliance with grant provisions and Federal laws and regulations.

ETA generally agreed with our recommendations and provided potential remedies pertaining to excess funds. ETA also acknowledged the need to address several other recommendations however; specific action plans were not provided.

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Executive Summary

The Office of the Inspector General (OIG) conducted a performance audit of the National Emergency Grants (NEG) used to administer the Health Coverage Tax Credit (HCTC) Bridge and Gap programs. The audit period was from grant inception of each selected state through June 30, 2004. We conducted the audit to answer the following questions:

- Did a significant number of potentially eligible individuals avail themselves of the program and were appropriated funds being utilized?
- What were the barriers that resulted in low individual participation?
- Why did most states not participate in the HCTC Bridge and Gap programs?
- Did states comply with pertinent provisions set forth in the Trade Adjustment Assistance Reform Act of 2002, Employment and Training Administration (ETA) implementation guidance, and Federal laws and regulations?

The Trade Adjustment Assistance Reform Act (TAARA) of 2002 (P.L. 107-210) was signed by the President on August 6, 2002. Among other things, TAARA amended the Internal Revenue Code of 1986 and the Workforce Investment Act of 1998 (WIA) to establish new mechanisms by which certain Trade Adjustment Assistance (TAA) individuals, as well as eligible Pension Benefit Guaranty Corporation (PBGC) recipients, can receive assistance in covering the cost of health insurance. The primary mechanism for such assistance is a Federal tax credit administered by the Internal Revenue Service (IRS). The tax credit is equal to 65 percent of the amount paid by an eligible individual for coverage of the individual and certain family members under qualified health insurance coverage. The tax credit was made available on an advance payment basis on August 1, 2003.

TAARA also established an additional mechanism, which was intended to be used as a Bridge and Gap during the IRS's HCTC implementation and enrollment processes. Bridge funding was utilized to provide interim health insurance coverage cost assistance until the HCTC advance payment system was implemented by the IRS on August 1, 2003. Gap funding is used to provide interim health insurance coverage cost assistance until the IRS completes the advance credit enrollment and first payment processes under the HCTC program. To carry out the Bridge and Gap programs, $80 million were authorized.

Results

1. Did a Significant Number of Potentially Eligible Individuals Avail Themselves of the Program and Were Appropriated Funds Being Utilized?

Participant and expenditure levels in the Bridge and Gap programs were low. Nationally, at June 30, 2004, Bridge and Gap participant levels were 4.8 percent of the potentially eligible population. Expenditure levels were less than 7 percent of appropriated funds, with significant funds still left to be obligated to states. Based on expenditure trends at December 31, 2004, appropriated funds will continue to go underutilized and potentially eligible individuals will not be served.

2. What Were the Barriers That Resulted in Low Individual Participation?

Several barriers led to low participation. The primary barriers included participant premium cost, up-front participant cost, most states not electing to participate in the program, effective exclusion of the PBGC population, program awareness, and overall program complexity. In addition, NEG grants were not processed timely, which led to delays in implementing the program.

3. Why Did Most States Not Participate in the Bridge and Gap Programs?

The primary reasons 39 states did not participate were lack of administrative funding, staffing, and systems required to run the program. As a result, the majority of the potentially eligible population did not have the opportunity to avail themselves of the program.

4. Did States Comply With Pertinent Provisions Set Forth in the Trade Adjustment Assistance Reform Act of 2002, ETA Implementation Guidance, and Federal Laws and Regulations?

There were several instances where controls and grant management need enhancement to safeguard Federal funds. We generally found a lack of communication between states and the IRS-HCTC office, which left unchecked, could lead to Federal funds being at risk. We also found instances where ETA grant management policy needs reinforcement to ensure grants are operating as intended and that Federal funds are being used efficiently.

Recommendations

We made 19 recommendations to the Assistant Secretary for Employment and Training. In summary we recommend that the Assistant Secretary address the following:

- Conduct an immediate needs assessment of NEG funds. Based on the assessment, funds should be redirected as appropriate.
- In consultation with state officials, Federal lawmakers and partnering Federal agencies develop remedies to identified barriers related to participant share of premium cost and participant up-front cost. In addition, develop remedies applicable to the complexity of the eligibility process, enhancement of coordination with the PBGC, increasing awareness at the One Stop level, working with partners towards a seamless process, and providing NEG funds on a timely basis.
- Work with nonparticipating states to address identified barriers to enhance participation. Clarify guidance pertaining to the use of administrative funds and availability of funds for the development of infrastructure systems. In addition, consider where feasible, centralizing processing systems or utilizing systems already in place.
- Work with IRS-HCTC office to implement a consistent system of communication between the states and the IRS-HCTC office and ensure that proper controls are instituted to safeguard Federal funds. Reinforce grant management policies, which require monitoring and assessments on a regular basis to ensure compliance with grant provisions, ETA guidance and Federal laws and regulations.

Agency Response

The Assistant Secretary for Employment and Training provided a response dated September 30, 2005. Generally, ETA concurred with our recommendations.

ETA acknowledged low participant and expenditure levels in the Bridge and Gap programs and proposed certain actions that may assist in reducing excess awarded funds. However, ETA did not address unobligated FY 2003 funds of $23.7 million.

ETA concurred that there are many opportunities for improvement. Some improvements require Congressional action (e.g. participant premium portion) while others require a review of current administrative processes. ETA also responded that it clarified the roles and responsibilities for monitoring NEG projects and currently has an on-site review guide under review, with special attention being given to HCTC projects.

The ETA response is included in its entirety in Appendix G.

OIG Conclusion

ETA's proposed actions should address our concerns regarding excess awarded funds. Based on ETA's plan, we consider recommendation 1 resolved but not closed. Recommendation 1 will be closed upon the execution of specific actions, i.e. completion of a needs assessment analysis and issuance of guidance regarding the reprogramming of awarded funds. ETA's response did not address our concerns regarding a needs assessment of unobligated FY 2003 funds of $23.7 million. As such, recommendation 2 is unresolved.

With regard to recommendations 3, 7, 9, 11, 12, and 13, ETA acknowledged the need to address these areas; however, a specific action plan has not been provided. Therefore, we consider these recommendations unresolved pending receipt of ETA's action plan.

ETA indicated it was taking actions to enhance NEG grant management activity. However, it did not sufficiently address the related recommendations. Therefore, recommendations 17, 18, and 19 are unresolved pending receipt of revised field guidance and a review guide covering the cited issues.

We do not agree with ETA's comments regarding the PBGC and Alternative Trade Adjustment Assistance (ATAA) populations. Accordingly, we consider recommendations 5 and 6 unresolved.

ETA did not provide comments applicable to recommendations 4, 8, 10, 14, 15, and 16. These recommendations are unresolved.

U.S. Department of Labor

Office of Inspector General
Washington, DC. 20210

Assistant Inspector General's Report

Ms. Emily Stover DeRocco
Assistant Secretary for Employment and Training
U. S. Department of Labor
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We conducted a performance audit of National Emergency Grants (NEG) used to administer the Health Coverage Tax Credit (HCTC) Bridge and Gap programs. Our objectives were to determine whether a significant number of HCTC potentially eligible individuals availed themselves of the program and to identify barriers, which could limit program participation. We also conducted procedures to determine whether expenditures incurred and reporting systems implemented were in accordance with the Trade Adjustment Assistance Reform Act (TAARA) of 2002, implementing guidance and applicable laws and regulations. In cases where issues were inseparable or had an impact extending to the HCTC program as a whole, we adjusted our work and have included applicable conclusions in the report. To accomplish these objectives, we designed our audit procedures to answer the following questions:

- Did a significant number of potentially eligible individuals avail themselves of the program and were appropriated funds being utilized?
- What were the barriers that resulted in low individual participation?
- Why did most states not participate in the HCTC Bridge and Gap programs?
- Did states comply with pertinent provisions set forth in the TAARA of 2002, Employment and Training Administration (ETA) implementation guidance, and Federal laws and regulations?

We conducted the audit in accordance with Government Auditing Standards for performance audits. Our audit scope, methodology, and criteria are detailed in Appendix B.

We found that participant and expenditure levels in the Bridge and Gap programs were low and that funds continue to go underutilized. We identified several barriers that led to low participation. The primary barriers included: participant premium cost, up-front participant cost, most states not electing to participate in the program, effective exclusion of the Pension Benefit Guaranty Corporation (PBGC) population, program awareness, and overall program complexity. In addition, NEG grants were not processed timely, which led to delays in implementing the program. We also identified certain administrative and control issues that are in need of enhancement to safeguard Federal funds.

RESULTS, FINDINGS AND RECOMMENDATIONS

Objective 1 - Did a Significant Number of Potentially Eligible Individuals Avail Themselves of the Program and Were Appropriated Funds Being Utilized?

Results and Finding: Participant And Expenditure Levels Were Low

TAARA established a Bridge and Gap mechanism to assist certain Trade Adjustment Assistance (TAA) participants and eligible Pension Benefit Guaranty Corporation (PBGC) pension recipients in paying for health care premiums. To carry this out, $80 million of Fiscal Years 2002 and 2003 funds were authorized.

As of June 30, 2004, national Bridge and Gap participant and expenditure levels were low. Specifically, participant levels were 4.8 percent of the cumulative potential eligible population and expenditure levels were less than 7 percent of appropriated funds. In addition, only 11 states elected to participate in the Bridge and Gap programs at June 30, 2004, with a small increase to 14 by December 31, 2004. Consequently, the vast majority of the potential eligible HCTC population did not have the opportunity to avail themselves of the Bridge and Gap programs.

Participation levels were low

Nationally, 4,669 individuals participated in the Bridge and Gap programs through June 30, 2004. This equates to 4.8 percent of the cumulatively potentially eligible population of 97,450.[1] The low percentage of Bridge and Gap participation is consistent with participation in the IRS-HCTC advance credit option in which only 17,080 of 333,331[2] or 5.1 percent of potentially eligible individuals participated. The percentage of enrolled Bridge and Gap individuals by participating states is shown of the next page.

[1] Source: IRS-HCTC quarterly report, Cumulative Potentially Eligible Population at June 30, 2004. We used the IRS report because there is a lack of reliable PBGC information at the state level.

[2] Source: IRS-HCTC quarterly report, Cumulative Potentially Eligible Population at June 30, 2004.

States	Bridge and Gap Participants Inception Through 6/30/04	Potentially Eligible Population as of 6/30/04	Percent of Population Participating
Audited			
Maine	193	4,077	4.7
Maryland	32	5,777	0.6
Utah	246	2,107	11.7
Subtotal	**471**	**11,961**	**4.0**
Unaudited			
North Carolina	2,268	24,589	9.2
New Jersey	7	8,012	0.1
Minnesota	168	4,441	3.8
Washington	5	8,942	0.1
Virginia	792	11,698	6.8
West Virginia	911	5,118	17.8
Ohio	0	22,241	0.0
Montana	47	448	10.5
Total	**4,669**	**97,450**	**4.8**

Expenditure levels were low

Participating states expended $5.4 million or 14 percent of the $38.2 million obligated as of June 30, 2004. We also analyzed spending through December 31, 2004, and found a decrease in expenditure trends.

Our concerns over low expenditure levels were previously reported in Alert Report No.02-04-204-03-330 dated September 30, 2004. Based on the Assistant Secretary's response to that report, ETA has taken several positive steps, including extending grant periods. However, as summarized below, national quarterly expenditures rates were actually decreasing. Even if grant periods are further extended, it is highly unlikely that funds will be fully utilized unless significant performance improvements occur. See Exhibit A for a detail expenditure analysis by state covering the quarters ending March 31, 2004, through December 31, 2004.

Bridge and Gap Quarterly Expenditure Analysis

Quarter	Awarded	Cumulative Expenditures	Percent Expended	Quarter Expenditure
03/31/04	$35,206,196	$3,042,657	8.6	
06/30/04	$38,227,371	$5,364,411	14.0	$2,321,754
09/30/04	$56,341,738	$7,462,551	13.2	$2,098,140
12/31/04	$56,341,738	$8,526,290	15.1	$1,063,739

Furthermore, 30 percent of authorized funds still remain unobligated. As of December 31, 2004, all FY 2002 funds ($50 million) and $6.3 of FY 2003 funds ($30 million) were obligated leaving $23.7 million unobligated by ETA.

Of the three states we audited as of June 30, 2004, only $1.7 million or 11 percent of the $15.3 million awarded was expended. Specifics regarding expenditure levels for each state are presented below:

State	Award	Expended	Percent
Maine	$7,500,000	$378,158	5.0
Maryland	5,632,000	29,569	0.5
Utah	2,173,097	1,281,022	58.9
Total	$15,305,097	$1,688,749	11.0

Both Maine and Maryland requested grant periods be extended to June 30, 2005, and projected excess grant funds in the amount of $6.8 million and $5.2 million, respectively. ETA extended the period of grant performance through June 30, 2007, for Maine (based on a secondary request) and June 30, 2005, for Maryland. Based on expenditure trend analysis through December 31, 2004, funds at Maine and Maryland still remain underutilized (see Exhibit A for details). Unlike the other two states, Utah maintained a state operated health plan. Utah expenditure levels were significantly higher primarily due to the methodology in which medical premiums were calculated and the delay in the qualification of its state operated health plan. (See findings 5A and 5B on page 24 for detail.)

Recommendations

The Assistant Secretary for Employment and Training should:

1. Conduct an immediate assessment of awarded NEG grants to determine the need for outstanding funds, and redirect funds as deemed appropriate, within the confines of appropriation law.

2. Conduct a needs assessment of the remaining unobligated FY 2003 funds totaling $23.7 million.

Agency Response

ETA acknowledges low participant and expenditure levels in the Bridge and Gap programs. ETA agrees with the need for on-going need assessments of appropriated NEG funds. It also stated that Congress recently passed a bill which authorizes states to reprogram NEG funds previously awarded to assist victims of Hurricane Katrina. ETA will advise states of this opportunity which may assist in reducing excess NEG HCTC program funds. In addition, states with current Bridge/Gap funding have expressed interest in partnering with nonparticipating states to provide premium assistance to eligible individuals. ETA believes that option holds promise.

OIG Conclusion

ETA's proposed actions should address our concerns regarding excess awarded funds. Based on its plan, we consider recommendation 1 resolved but not closed. Recommendation 1 will be closed upon the execution of specific actions, i.e. completion of a needs assessment analysis and issuance of a TEGL regarding the reprogramming of awarded funds. ETA's response did not address our concerns regarding a need assessment of unobligated FY 2003 funds in the amount of $23.7 million. As such recommendation 2 is unresolved.

Objective 2 – What Were The Barriers That Resulted in Low Individual Participation?

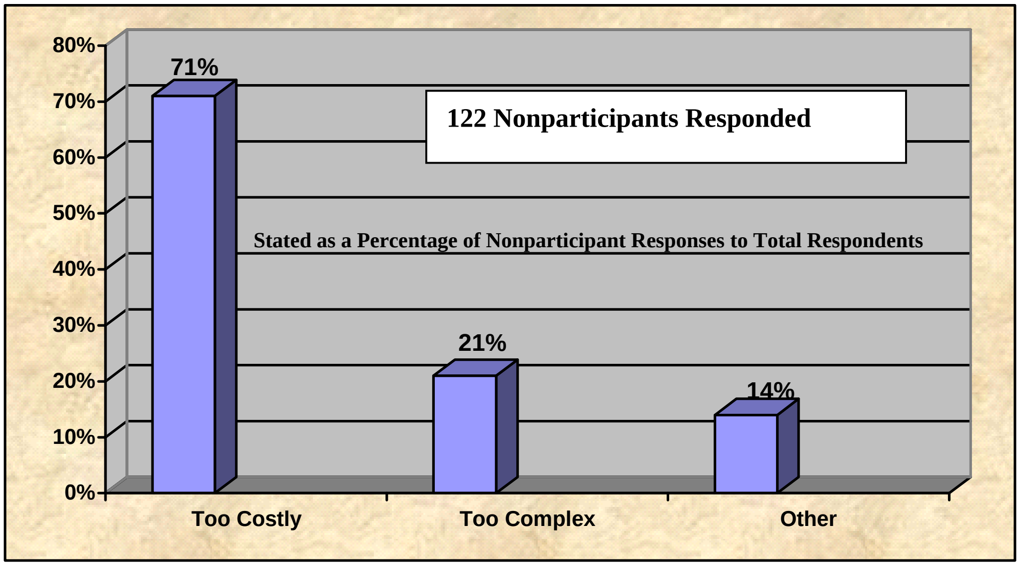
Results and Finding: Several Barriers Contributed To Low Participation

Several barriers contributed to low participation. These barriers included high cost to participants; lack of effective outreach systems; program awareness; eligibility and enrollment processes; and NEGs not being processed timely. Each of these barriers are discussed in detail below.

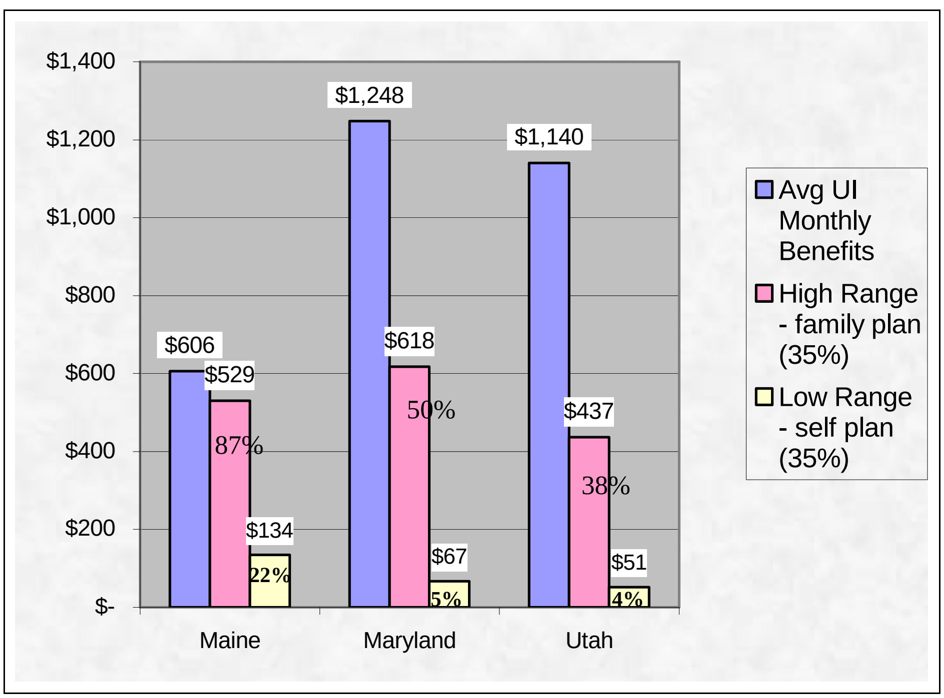
Finding 2A. Participant contribution is too costly

Under TAARA, an eligible individual can receive a tax credit equal to 65 percent of the amount paid for qualified health insurance coverage. Surveys of states and individuals indicated that the participant's contribution towards the insurance premium (35 percent) was too costly and had a negative impact on participation. Eighty percent of participating states responded that the cost to the participant is prohibitive and has led to low participation. Nonparticipating states also commented that cost was a factor.

As depicted in the chart below, 71 percent of nonparticipant respondents needing services[3] stated that the premium cost was the main factor for not participating.



An analysis of UI benefits and participant premium contributions at the three states audited highlights the significant impact premium costs has on potential participants. As shown below, at the three states audited, the participant premium contribution (35 percent of the total medical premium) can be as much as 87 percent of the average UI benefit in Maine, 50 percent in Maryland and 38 percent in Utah.



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[3] Our calculations exclude responses of individuals who did not need services or did not qualify for the program, i.e., spousal coverage, obtained job, and those who did not qualify, i.e., Medicare.

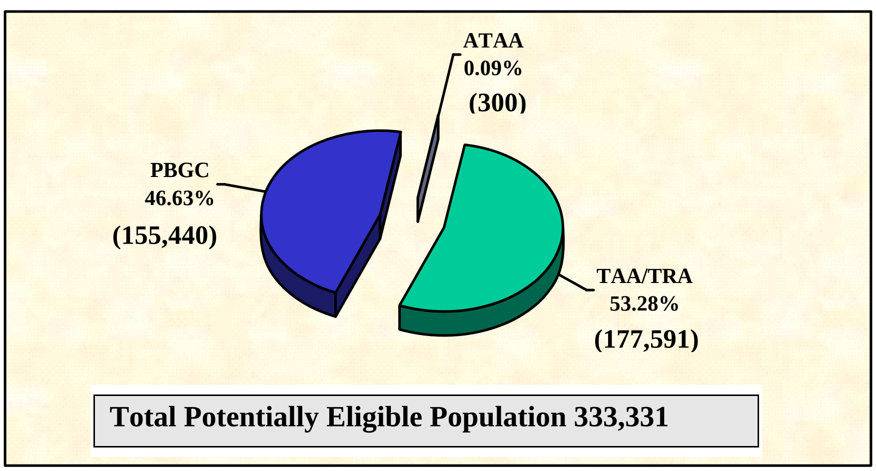
In addition to the participants' portion being cost prohibitive, we found that Maine required the participant to pay 100 percent of the monthly medical coverage premium to the insurance provider during the gap period. In order to obtain a 65 percent reimbursement, participants had to provide the state subsequent proof of premium payments. This methodology made participation in the program more cost prohibitive and most likely had a negative impact on the level of program participation.

Finding 2B. Need for effective outreach systems to identify PBGC and ATAA potentially eligible individuals

ETA Training and Employment Guidance letter (TEGL) 10-02 dated October 10, 2002, states that the potentially eligible populations consist of individuals receiving a Trade Readjustment Allowance (TRA) or would be eligible for TRA except that he/she has not yet exhausted UI benefits; individuals receiving benefits under ATAA; and individuals who are 55 years of age or older and receiving a pension benefit paid by PBGC. As per TEGL 24-03 dated April 14, 2003, the state's role is to identify the TRA and ATAA populations and report them to the IRS. PBGC reports its population directly to the IRS.

We found that Maine, Maryland and Utah identified and reported TAA/TRA populations. However, Maine and Maryland did not effectively identify PBGC and ATAA populations in order to conduct outreach efforts. As a result, PBGC and ATAA potentially eligible populations were effectively excluded from those Bridge and Gap programs. Furthermore, as of January 2005, Utah informed us that due to PBGC privacy concerns, they no longer received a PBGC listing. As such, effective January 2005 none of the states audited have effective systems to identify the PBGC population.

As depicted below, at June 30, 2004, while the national ATAA population is not significant, the PBGC population is a significant portion (47 percent) of the potentially eligible population.[4]



[4] Per the Internal Revenue Service Health Coverage Tax Credit Quarterly report as of June 30, 2004, the cumulative potentially eligible population by category.

PBGC

Two of the three states, Maine and Maryland, did not have effective systems to identify PBGC individuals in order to conduct outreach. Utah at the time of audit was receiving a listing of individuals from PBGC on a quarterly basis. As stated above, as of January 2005, Utah no longer received a PBGC listing due to PBGC privacy concerns. As such, effective January 2005 none of the states audited have effective systems to identify the PBGC population. Maryland received a partial listing, representing a small portion of the PBGC population from the IRS on a biweekly basis. This partial listing represented individuals that contacted the IRS regarding the HCTC program and gave consent to the IRS to provide their contact information to the state. Maryland did not use the consent list for outreach efforts. Instead, Maryland used this list to check the status of the HCTC Bridge and Gap participants to ensure that individuals were not receiving duplicate payments.

ATAA

Although Utah had a system in place to identify and report the ATAA population, at time of audit, Maine and Maryland did not have a process in place to identify and report eligible ATAA individuals. Without this identification process, Maine and Maryland could not conduct outreach or report names to the IRS-HCTC office.

Finding 2C. Enhanced program awareness needed

One-third of nonparticipants surveyed were unaware of the HCTC program. The majority of these individuals responded that they would have considered enrolling had they been aware of the HCTC program. Considering that the nonparticipating population through June 30, 2004, was over 300,000, this would equate to approximately 100,000 potentially eligible individuals that were unaware of the program. In addition, 50 percent of the participating states also commented about the need for increased awareness and program outreach. Our survey indicated that most individuals that knew about the program learned about it through a letter from the state workforce agency. On average, less than 20 percent of participants/nonparticipants indicated they learned about the program through the One Stop career center.

Finding 2D. Eligibility and enrollment process is complex and fragmented

The eligibility and enrollment process for HCTC is complex and fragmented. From the point of unemployment, an individual and/or a representative must interact with the U.S. Department of Labor (USDOL), the IRS, the state and a health plan provider. Each of these organizations has its own unique part in the eligibility and enrollment process. There was no seamless methodology to ensure that a potential participant had access to all of the services intended under TAARA. This multi-agency, multi-step process for eligibility and enrollment adds to the time and complexity and impacts participation. See Exhibit B for detailed steps to enroll in the HCTC advance program.

Participating states also noted that the system was complex and involved too many parties; individuals were confused regarding the intent of the program, the application process, and differences between the IRS-HCTC and state Bridge and Gap program. In fact, the result of the survey illustrates the confusion between the two programs. Specifically, we found that 15 percent of nonparticipants actually participated, but only in the IRS-HCTC program. We asked those individuals why, and 85 percent who responded stated that they did not know about the state Bridge and Gap programs.

Further, 5 of 10 participating states indicated that the long TRA eligibility process contributed to low participation. Some states indicated that the items required in determining TAA/HCTC eligibility status takes a long period of time to establish and hinders a time sensitive benefit. Several months can pass before the complete HCTC eligibility status of an individual has been determined and is reported to the IRS-HCTC office. A state also cited that an individual is not potentially eligible for HCTC until they are eligible for TRA. It was noted that an individual is not entitled to TRA until the first week of unemployment that begins more than 60 days after the filing date of a petition that is later certified. Therefore, the system has an inherent time lag. During the entire TRA eligibility and HCTC enrollment process, the individual has to pay up-front 100 percent of the heath insurance premium. State officials suggested that lifting or relaxing TRA eligibility requirements for HCTC purposes would increase participation in the program.

Finding 2E. NEG Applications For the Bridge and Gap Programs Were Not Processed Timely

The NEG applications were not processed in a timely manner. The TAARA of 2002 required that the Secretary not later than 15 days after the date on which the Secretary received a completed application from a state or entity, notify the state or entity of the determination of the Secretary with respect to the approval or disapproval of such application. As of June 30, 2004, it took ETA on average 86 days from the date of application receipt to application approval and 114 days from application receipt to actual award. This had the effect of delaying funds available for intended program purposes.

Four of the 10 participating states responding to the survey also commented that timeliness of NEG processing was a barrier and resulted in delayed implementation. One state commented that, by the time of program implementation, it had missed the impact of a major layoff. Another state commented that the NEG processes were slow and the state spent excessive time and resources to resolve problems.

A detailed analysis of elapsed days is presented on the next page.

HCTC Bridge and Gap Programs NEG Application Elapsed Days as of June 30, 2004						
State	State NEG Application Date[5]/[6]	ETA Received Date[6] [A]	Secretary Approval Date[6] [B]	Award Date[6] [C]	Elapsed Days Secretary Approval [B-A]	Elapsed Days Award Date [C-A]
Maine	2/13/2003	2/19/2003	5/30/2003	6/05/2003	100	106
Maryland	4/01/2003	4/15/2003	6/05/2003	8/18/2003	51	125
Minnesota	2/07/2003	2/27/2003	6/05/2003	6/13/2003	98	106
Montana	3/26/2003	3/26/2003	5/28/2003	6/06/2003	63	72
New Jersey	3/25/2003	3/26/2003	6/05/2003	6/20/2003	71	86
North Carolina	6/23/2003	6/25/2003	8/15/2003	8/29/2003	51	65
Ohio	4/15/2004	4/16/2004	7/15/2004	7/28/2004	90	103
Utah-1	4/17/2003	4/17/2003	6/19/2003	9/17/2003	63	153
Utah-2	3/26/2004	3/29/2004	5/01/2004	6/17/2004	33	80
Virginia	8/20/2003	8/22/2003	9/24/2003	9/24/2003	33	33
W. Virginia	5/21/2003	5/22/2003	12/22/2003	1/30/2004	214	253
Washington	5/30/2003	6/03/2003	11/20/2003	12/10/2003	170	190
			Average Elapsed Days		**86**	**114**

Recommendations

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

3. In consultation with state officials, Federal lawmakers and partnering Federal agencies consider developing potential remedies to address the cost barrier. For example, officials may want to consider a progressive tax credit system **(Finding 2A).**

4. Address with Maine the need to implement a payment management system whereby the participant only needs to pay upfront 35 percent of the medical premium **(Finding 2A).**

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[5] In those cases where a state submitted a supplement, we used the later date in our calculations.

[6] With the exception of the states audited, dates were provided by ETA and were not subject to audit.

5. Coordinate with PBGC, IRS and states to develop a system that consistently and effectively transmits the potential eligible PBGC population to the states or other designated party to facilitate timely outreach **(Finding 2B)**.

6. Follow up with Maine and Maryland to ensure systems that identify and report ATAA individuals are operating effectively **(Finding 2B)**.

7. Ensure that state outreach efforts, include increased awareness of the program through the One-Stop Career Center **(Finding 2C)**.

8. a. Work with the partnering entities, Treasury, PBGC and the states, to develop a seamless process whereby individuals are ensured availability to all of the services provided for under TAARA **(Finding 2D)**.

   b. The partners should consider the use of a centralized administrator, who would be responsible for overall coordination to ensure individuals get universal assistance for all available services **(Finding 2D**).

9. In consultation with state officials, and Federal lawmakers and agencies, consider the feasibility of allowing Bridge and Gap payments be made to tentatively eligible TRA individuals during the TRA eligibility process. In order to safeguard Federal funds the Assistant Secretary would also have to institute recapture mechanisms for payments made to individuals ultimately deemed ineligible **(Finding 2D).**

10. Implement procedures, which will ensure the timely processing of NEG Bridge and Gap grants. ETA should also continue to monitor the implementation of its new automated system to ensure that the NEG applications are processed timely **(Finding 2E)**.

Agency Response

ETA concurs that there are many opportunities for improvement. Some improvements require Congressional action (e.g. participant premium portion) while others require a review of current administrative processes including streamlining the eligibility process, determination of qualified health plans; enhancement of the rapid response system to better inform trade effected workers; and more comprehensive information available through the 600 One Stop Career Centers. ETA does not concur that there has not been coordination with the PBGC.

ETA stated that the OIG report indicated that Maryland and Maine did not have systems in place to identify and report eligible ATAA participants. However, it stated as of the time of the OIG review, Maryland did not have any individuals enrolled into the ATAA program, and thus there was no need to identify any participants.

OIG Conclusion

ETA did not provide comments applicable to recommendations 4, 8 and 10. As such, we consider those recommendations unresolved. With regard to recommendations 3, 7 and 9, ETA acknowledges the need to address these areas, but did not provide any specific action plan. Therefore, we consider those recommendations unresolved pending the receipt of ETA's action plan.

Regarding recommendation 6, we acknowledge that the ATAA population is small. Although we do not consider this a major issue, that does not negate the necessity for Maryland and Maine to have systems in place to identify and report potentially eligible ATAA populations. It should be noted that Maine has advised us that they now have an identification and reporting system. Based on the above, we consider recommendation 6 unresolved pending ETAs verification that Maine and Maryland have required systems in place.

With regard to recommendation 5, the report did not indicate that ETA has not coordinated with PBGC. However, our audit concluded that obtaining PBGC recipient data has been sporadic. ETA indicated that several states and Federal agencies have been actively seeking solutions which are not overly burdensome to any one entity. ETA believes progress is being made. It is apparent that more ETA, IRS, PBGC and state coordination is required to ensure a consistent source of data that will enable the potentially eligible PBGC population to have access to available benefits and services. Based on this we consider recommendation 5 unresolved pending the receipt of ETA’s specific action plan.

Objective 3 - Why Did Most States Not Participate in the HCTC Bridge and Gap Programs?

Results and Finding: Survey Results – Reasons For Low State Participation

As of June 30, 2004, 39[7] of the 50 states elected not to participate in the Bridge and Gap programs. As a result, potentially eligible populations in these states were excluded from the program. We surveyed nonparticipating states and their primary reasons for not participating were lack of administrative funding, staffing, and systems required for the program. The chart below highlights the reasons for nonparticipation.

Reason	Percent Respondents
Administrative funding & staffing	61
Do not have required systems	58
Insurance plans	32
Individual interest is limited	21
Participant affordability	16
Unfamiliarity and potential legal liabilities	18
Limited eligible population	16
Other	16

Administrative funding, staffing and required systems

Respondents commented that the lack of administrative funding, staffing, and the systems required to run the program were the major reasons they did not participate. Several states cited the 10 percent cap on administrative expenses was not sufficient to cover the cost of administration. States also cited that they did not have the necessary resources to develop and implement a staff intensive system to determine and verify eligibility, set up payment arrangements with insurance companies, issue checks, track payments, provide customer service and generate applicable tracking reports.

Lack of qualified insurance plans or limited insurance company interest

Several state officials commented that they did not have a state HCTC qualified plan. In addition, state officials commented that insurance companies were not interested or were reluctant to write plans that met TAARA requirements or in some cases for a potential small group of individuals.

Unfamiliarity and potential legal liabilities

State officials commented that they were entering a new field (insurance) where they had no expertise. They were also concerned about potential legal liability for late

[7] Thirty-eight of the 39 states responded to our survey.

payments, timeliness of identifying, verifying and enrolling eligible participants, and liability for missed payments if the state was at fault and an individual lost coverage.

Participant affordability

Several state officials commented that the high participant's contribution (35 percent of total premium) towards the medical insurance premium while collecting unemployment benefits was cost prohibitive.

Limited interest or limited eligible population

State officials commented that there has been limited individual interest to enroll in HCTC. Several other state officials commented that they had limited TAA/TRA eligible populations. States believed that when balanced with the resource commitment to institute the required systems, it would not have been economically prudent to participate in the program.

Other reasons cited by states for not participating

- Unavailability of PBGC data and unfamiliarity with the PBGC population.
- Uncertainty of future NEG funding to continue the program.
- Complexity of the NEG process.

Recommendations

The Assistant Secretary for Employment and Training should:

11. Work with nonparticipating states to address cited barriers to increase state participation.

12. Consider making funds available and clarify guidance pertaining to the use of administrative funds for the development of infrastructure systems.

13. Consider, where feasible, centralizing the processing systems or utilizing systems already in place by other states.

Agency Response

ETA stated that along with partner agencies it will continue to address the issues raised by states regarding the development of qualified health plans; the development or modification of electronic systems to enable states to streamline applicable processes; and the development or modification of systems to identify potentially eligible individuals. ETA acknowledges the states concern regarding lack of funds available to provide reports to the IRS on potential eligible recipients. However, it stated that the Bridge and Gap programs include administrative funds and that DOL issued

TEGL No. 10-02 on October 10, 2002, which informed states of the availability of infrastructure funding. ETA also indicated that states with current Bridge/Gap funding have expressed interest in partnering with nonparticipating states to provide premium assistance to eligible individuals

OIG Conclusion

ETA acknowledges the need to address state concerns on an on-going basis as well as engaging participating states to assist nonparticipating states. However its response excludes a specific course of action. Based on this we consider recommendation 11 and 13 unresolved pending the receipt of a specific action plan.

ETA did provide some funding via TEGL 10-02, typically $50,000-$200,000 to develop reporting and other systems under the HCTC program. However, based on state responses to the OIG survey, states perceive a lack of administrative and/or infrastructure funding to run a Bridge or Gap program in addition to current HCTC program requirements. This has contributed to low state participation in the Bridge and Gap programs. We continue to recommend that ETA provide clarifying guidance to states regarding the use and availability of funds to build, maintain and run the necessary systems for the Gap program. As such, we consider recommendation 12 unresolved pending the ETA issuance of further clarification and guidance.

Objective 4 – Did States Comply With Pertinent Provisions Set Forth in the Trade Adjustment Assistance Reform Act of 2002, ETA Implementation Guidance, and Federal Laws and Regulations?

Results and Finding: Weaknesses in Controls Could Put Federal funds at Risk

29 CFR part 97.20(b)(3) requires that all grantees maintain effective controls that adequately safeguards assets. We identified three instances where weaknesses in controls could put Federal funds at risk. Specifically, payments were made to potentially eligible participants without IRS confirmation, premiums were recorded and reported without considering the participants portion of premiums, and there was no reporting of payments at the end of the year to participants or the IRS.

Finding 4A. Bridge and Gap payments were made to potential eligible participants without IRS confirmation

As outlined in Unemployment Insurance Program Letter (UIPL) 33-03, dated August 18, 2003, HCTC final eligibility is made by the IRS-HCTC office. Generally, there was a lack of communication between the IRS-HCTC and the states to ensure that Bridge and Gap payments were in fact made to eligible individuals. As such, the potential exists that Bridge and Gap payments could be made to ineligible individuals or individuals that never actually applied to HCTC. A summary by state is discussed below:

Maine

There was no communication between Maine and the IRS-HCTC office to ensure final eligibility or to verify that an individual in fact enrolled in the IRS-HCTC program. However, the Maine and IRS-HCTC application required similar questions be answered by the individual. Based on the individual's response, Maine would deem an individual eligible or ineligible for HCTC Bridge and Gap payments.

Maryland

IRS-HCTC office provides Maryland with a biweekly consent report that includes the individual's eligibility status as either a candidate or as a HCTC participant. However, the report does not include individuals that applied for the HCTC program and were deemed ineligible by the IRS. There was no other communication between IRS-HCTC and Maryland to ensure final eligibility. In addition, the State application does not request certain eligibility information included in the IRS-HCTC application.

Utah

The State's program administrator Benefit Insurance Group (BIG), assisted individuals in enrolling in the HCTC Bridge and Gap programs. However, there was no communication between the IRS and the State's contractor regarding individuals that were deemed ineligible by the IRS for the program.

Finding 4B. Maryland recorded Gap payments at 100 percent of premium amount with no regard to participant portion

Maryland has a contract with the Lower Shore Private Industry Council (LSPIC) to provide for the administration of the State's Bridge and Gap programs. Maryland procedures require participants to forward 35 percent of the premium cost to the State's agent, who then disburses 100 percent of the premium to the insurance carrier. LSPIC's Financial Status Report as of June 30, 2004, reflected health coverage premiums at 100 percent of the premium costs. As a result, Maryland's reported expenditures of $34,919 as of June 30, 2004, were overstated by $8,938. Maryland representatives were made aware of this issue during our fieldwork and have revised their FSR to reflect the corrected amount. Maryland officials have stated that they will ensure that existing controls are adhered to so that this situation does not occur again.

Finding 4C. No system to report Bridge and Gap payments to the IRS

There were no systems required to annually report to the participant or the IRS payments made under the Bridge and Gap programs. As such, the potential exists that participants could recover the cost of premiums twice, once though the gap payment and secondly though the year-end tax credit. This issue is most prevalent in the State of Maine, as the participant must pay up front the entire premium to the insurance company before receiving any reimbursement. Therefore, the possibility exists that participants could use the same proof of payment when filing for the year-end tax credit. It should be noted that the IRS uses Form 1099H for the reporting of payments. However, it only requires that providers of qualifying healthcare coverage file an information return with the IRS reporting advance payments received from the Department of the Treasury on behalf of eligible individuals.

Recommendations

The Assistant Secretary for Employment and Training should:

14. a. Work with IRS-HCTC office to implement a consistent system of communication between the states and the IRS-HCTC office to ensure that individuals receiving Bridge and Gap payments are in fact entitled to benefits **(Finding 4A)**.

    b. In order to make timely payments while safeguarding Federal funds, the Assistant Secretary should also consider the feasibility of instituting recapture mechanisms for payments made to individuals ultimately deemed ineligible **(Finding 4A)**.

15. Ensure that Maryland maintains procedures so that internal controls are operating effectively for the recording of expenditures. In addition, we recommend that procedures be incorporated during ETA monitoring to ensure that premium expenditures are not over recorded at other participating states **(Finding 4B)**.

16. In conjunction with the IRS implement a mechanism for the state to report to the IRS and the participant, Gap payments made to a participant each calendar year **(Finding 4C)**.

Agency Response

ETA response stated that they have worked closely with the IRS-HCTC office since the passage of the Trade Reform Act of 2002. There are monthly or bi-monthly conference calls which include representatives from the IRS-HCTC, ETA and states. IRS-HCTC has representatives available by region to work with states, and HHS has worked with states in the development of qualified health plans.

OIG Conclusion

Although we commend ETA for its on-going efforts and communication with partnering agency, its response does not address the issues specified in recommendations 14, 15, and 16. As such these recommendations are unresolved.

Results and Finding: Grant Management Needs Improvement

Employment and Training Order No. 1-03, dated April 17, 2003, sets forth the policy for pre- and post-award grant management, including quarterly assessments. The intent is to ensure that grantees deliver agreed upon services and meet goals within the budget negotiated in the grant agreement. We identified the following areas, which are indicative of a breakdown of the grant management process.

Finding 5A. Expenditures were excluded from premium calculation-Utah

Utah's approved HCTC Bridge and Gap grant proposals reflected a State operated health plan. During our analysis of the proposed/approved grant budgets and actual expenditures incurred, we identified certain expenditures that were charged 100 percent to the HCTC Bridge and Gap programs. The costs identified are typically recovered through insurance premiums. This methodology resulted in a cost savings to the participant and increased cost to the NEG grant.

The ETA Grant Officer, and the then Acting Executive Director for Utah Department of Workforce Services, acknowledged that the following expenditures charged to the HCTC Bridge and Gap programs would normally be recovered by an insurance carrier through insurance premiums. As a result, the acceptance of the proposal by ETA resulted in additional cost to the government of $239,712, which would have normally been borne by participants through the payment of premiums.

Expenditure Line Item	Amount
Data Management. System/Licensing	$203,600
Office Burden	156,000
Actuarial Fees	32,229
Legal Fees	5,300
Consulting Fees	17,000
Fixed Costs	270,762
Total Charged Directly to HCTC	684,891
Less: HCTC 65 Percent Portion	445,179
Additional Program Cost	$239,712

Effective March 1, 2005, Utah no longer maintains a state based insurance plan. An outside insurance carrier, Intermountain Health Care (IHC) is the provider.

Finding 5B. Delay in Utah State operated health plan qualification-Cost Impact

In accordance with the ETA's TEGL No. 20-02, Change 1, as well as the grantees' own proposals, gap payments were to be made for a period not to exceed 3 months until the IRS–HCTC enrollment process was complete. However, since there was a delay in the IRS recognizing Utah's plan, individuals did not transition into the IRS-HCTC program and continued to receive assistance through the HCTC Gap program. As a result, Utah on average made payments for 6.5 months per participant.

ETA is aware of the situation. Utah has submitted a grant modification to ETA that will retroactively approve expenditures to allow for the extended payments resulting from the plan delay. They are awaiting ETA approval. The delay resulted in the following cost impact to the NEG grants:

Total Premium Payments Paid with HCTC Bridge and Gap Funds	$669,122
Total Premium Payments if Gap Payments were made (3 months)	250,315
Cost Impact of Delay in Qualification of Insurance Plan	$418,807

Finding 5C. Lack of program progress reports

The provisions of the NEG award and TEGL 20-02 require the grantee to submit a narrative report and form ETA 9104 to ETA on a quarterly basis. Narrative reports are intended to provide ETA with insight into grant progress, encountered problems, etc. The ETA form 9104 provides statistical information such as participant counts and services provided. There were inconsistencies among the way the three states submitted required reports as follows:

- Maine did submit program narratives but did not submit ETA Forms 9104.
- Maryland did not submit program narratives or ETA Forms 9104.
- Utah did not submit program narratives but did submit ETA Forms 9104.

Recommendations

The Assistant Secretary for Employment and Training should:

17. Ensure that during the review of grant actions involving state-operated plans that proposed premium calculations reflect all costs that are typically recovered through insurance premiums **(Finding 5A**).

18. Reinforce existing policies and procedures that require monitoring and assessments on a regular basis to ensure compliance with grant provisions and allow for necessary grant actions on a timely basis **(Finding 5B)**.

19. Ensure consistent program reporting **(Finding 5C).**

Agency Response

ETA responded that they clarified the roles and responsibilities for monitoring NEG projects since the OIG audit concluded in 2004. An on-site review guide is currently under review. Special attention will be given to HCTC projects.

OIG Conclusion

Although ETA has indicated it was taking actions in enhancing NEG grant management activity, it did not sufficiently address recommendations. Therefore, recommendations 17, 18 and 19 are unresolved pending receipt of revised field guidance and review guide covering cited issues.

Elliot P. Lewis

Elliot P. Lewis
March 18, 2005

Exhibits

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Exhibit A

Trend Analysis of Bridge and Gap Grant Expenditures
Quarters Ended March 31, 2004 Through December 31, 2004

State	Effective Date (1)	End Date (1)	Cumulative Award Amount (1)/(2)	Cumulative Expenditures 12/31/2004 (3)	Cumulative Expenditures 9/30/2004 (3)	Cumulative Expenditures 6/30/2004 (3)	Cumulative Expenditures 3/31/2004 (3)
Florida	9/1/2004	8/31/2006	$12,566,852	$11,557	$0	$0	$0
Illinois	7/1/2004	6/30/2006	2,802,966	0	0	0	0
Kentucky	7/1/2004	6/30/2006	2,317,865	288	0	0	0
Maine	9/1/2002	6/30/2007	7,500,000	442,365	$417,226	378,158	297,576
Maryland	3/3/2003	6/30/2005	5,632,000	112,439	30,830	29,569	15,934
Minnesota-1	1/1/2003	9/30/2003	211,000	204,943	204,943	204,943	193,701
Minnesota-2	9/30/2004	6/30/2007	2,754,264	9,604	0	0	0
Montana	4/1/2003	12/31/2003	114,548	114,531	114,531	114,531	114,548
New Jersey	1/1/2003	6/30/2004	1,930,000	30,931	30,931	30,931	30,931
North Carolina	8/1/2003	6/30/2006	7,614,684	2,901,309	2,312,110	1,656,517	1,214,839
Ohio	5/15/2004	6/30/2005	1,569,493	24,289	0	0	0
Utah-1	4/1/2003	10/1/2003	721,415	721,415	721,415	721,415	693,785
Utah-2	10/1/2003	6/30/2005	3,065,477	1,835,646	1,650,674	559,607	0
Virginia	8/1/2003	9/30/2007	3,176,800	716,321	685,496	592,827	481,343
W. Virginia	6/1/2003	9/30/2005	2,852,374	1,360,560	1,293,533	1,075,913	0
Washington	6/1/2003	6/30/2006	1,512,000	40,092	862	0	0
		Total	**$56,341,738**	**$8,526,290**	**$7,462,551**	**$5,364,411**	**$3,042,657**
Cumulative award level				**$56,341,738**	**$56,341,738**	**$38,227,371**	**$35,206,196**
Percent expended to award amount				**15.1**	**13.2**	**14.0**	**8.6**
Quarterly expenditure level				**$1,063,739**	**$2,098,140**	**$2,321,754**	

1. Represents data obtained from ETA, updated through March 3, 2005. This data has not been subject to audit procedures.

2. All of FY 2002 funding of $50 million has been awarded. $6.3 million of the $30 million FY 2003 funding has been awarded.

3. With the exception of expenditures for Maine (3/31/04), Maryland (6/30/04) and Utah (6/30/04), data was obtained from ETA and was not subject to audit.

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Steps to Enroll and Receive Advanced HCTC

EXHIBIT B

TAA/TRA Recipient

1. Worker displaced due to foreign competition
2. Workers, Union, or Company Officials petitions USDOL
3. USDOL certifies petition and notifies SWA
4. SWA obtains workers names and notifies workers to apply for TAA benefits

5 Worker applies for TAA and TRA, enrolls in training or training waiver
6. SWA determines worker eligibility for TAA and TRA
7. SWA sends names of potentially eligible to IRS/HCTC office daily
8. IRS/HCTC office mails information and enrollment packet for advance HCTC to individuals identified by SWA as potentially eligible

9. Recipient enrolls in a qualified health plan (if not already enrolled)
10. Recipient enrolls for advance HCTC by phone or mail
11. IRS/HCTC office determines eligibility and registers the qualified health plan to receive advance HCTC (if not already registered)

12. IRS/HCTC office sends recipient invoice for 35 percent of eligible premium each month
13. HCTC enrollee sends 35 percent of eligible premium to IRS/HCTC office
14. IRS matches 35 percent from enrollee with 65 percent and sends full premium to health plan

PBGC Beneficiary

1. Retirees pension plan is terminated due to former employer going bankrupt or experiences severe financial difficulty, PBGC takes over plan
2. PBGC identifies and sends names of beneficiaries potentially eligible to IRS/HCTC office monthly
3. IRS/HCTC office mails information and enrollment packet for advance HCTC to individuals identified by PBGC as potentially eligible

4. Beneficiary enrolls in a qualified health plan (if not already enrolled)
5. Beneficiary enrolls for advance HCTC by phone or mail

6. IRS/HCTC office determines eligibility and registers the qualified health plan to receive advance HCTC (if not already registered)
7. IRS/HCTC sends beneficiary invoice for 35 percent of eligible premium each month
8. HCTC enrollee sends 35 percent of eligible premium to IRS/HCTC office
9. IRS matches 35 percent from enrollee with 65 percent and sends full premium to health plan

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Appendices

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APPENDIX A

BACKGROUND

The Trade Adjustment Assistance Reform Act (TAARA) of 2002 (P.L. 107-210) was signed by the President on August 6, 2002. Among other things, TAARA amended the Internal Revenue Code of 1986 and the Workforce Investment Act of 1998 (WIA) to establish new mechanisms by which certain Trade Adjustment Assistance (TAA) participants, as well as eligible Pension Benefit Guaranty Corporation (PBGC) pension recipients could receive assistance in covering the cost of health insurance coverage. The primary mechanism for such assistance is a Federal tax credit administered by the Internal Revenue Service. The tax credit is equal to 65 percent of the amount paid by an eligible individual for coverage of the individual and certain family members under qualified health insurance coverage. The tax credit was made available on an advance payment basis on August 1, 2003.

TAARA also established an additional mechanism, which was intended to be used as a Bridge and Gap during the IRS's HCTC advance option implementation and enrollment processes. Bridge funding was utilized to provide interim health insurance coverage cost assistance until the HCTC advance payment system was implemented by the IRS on August 1, 2003. Gap funding is used to provide interim health insurance coverage cost assistance until the IRS completes the advance credit enrollment and first payment processes under the HCTC program.

To carry this out, TAARA authorized $50 million of Fiscal Year (FY) 2002 NEG funds for interim health insurance coverage and other assistance. In addition, another $30 million was authorized in an appropriation for FY 2003 in the Consolidated Appropriations Resolution, 2003, Public Law 108-7.

Individuals eligible for health insurance coverage assistance under TAARA are:

- An individual who is receiving a trade readjustment allowance (TRA) under the Trade Act, or would be eligible for TRA except that he/she has not yet exhausted Unemployment Insurance benefits.

- An individual who is receiving benefits under a demonstration program of alternative trade adjustment assistance (ATAA) for older workers under section 246 of TAARA.

- An individual who is 55 years of age or older and is receiving a pension benefit paid in whole or part by PBGC.

In addition, coverage may also be provided for the spouse and dependents of an eligible individual where such persons are not otherwise covered by healthcare insurance. Dependents are limited to those persons who are allowable dependent deductions on the eligible individual's tax return.

APPENDIX B

OBJECTIVES, SCOPE, METHODOLOGY, AND CRITERIA

Objectives

The Office of Inspector General conducted a performance audit of the National Emergency Grants used to administer the HCTC Bridge and Gap programs. Our objectives were to determine whether a significant number of HCTC potentially eligible individuals availed themselves of the program and to identify barriers, which could limit program participation. We also conducted procedures to determine whether expenditures incurred and reporting systems implemented were in accordance with TAARA, implementation guidance and applicable laws and regulations. To accomplish this, we designed our work to answer the following questions.

- Did a significant number of potentially eligible individuals avail themselves of the program and were appropriated funds being utilized?

- What were the barriers that resulted in low individual participation?

- Why did most states not participate in the HCTC Bridge and Gap programs?

- Did states comply with pertinent provisions set forth in TAARA, ETA implementation guidance, and Federal laws and regulations?

Scope

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and included such tests as we considered necessary to satisfy the audit's objectives. We selected the states of Maine, Maryland and Utah for audit. The audit period covered from each state's grant inception through June 30, 2004. Fieldwork was conducted from June 7, 2004, through March 18, 2005. An exit conference was held with ETA on August 29, 2005.

A performance audit includes an understanding of internal controls considered significant to the audit objectives and testing compliance with significant laws, regulations, and other compliance requirements. In order to plan our performance audit, we considered whether internal controls significant to the audit were properly designed and placed in operation.

Methodology

Of the 11 states participating as of June 30, 2004, we conducted field audits in the states of Maine, Maryland, and Utah. In selecting these states, we considered size of the grant, spending patterns, geography, and other factors deemed relevant to our audit. We also performed analytical procedures at the remaining eight participating states and obtained input of the underlining causes/barriers that resulted in low participation.

At each audit site, our work covered: implementation of the HCTC program, ensuring that required HCTC reporting systems were in place and operating effectively, analytical procedures to identify potential participation barriers, selection and review of participant files, and tests of costs to the grantee accounting records.

We surveyed Bridge and Gap participants and nonparticipants to obtain insight and to determine why participation in the HCTC program was low. Our statistical sample consisted of 604 individuals, 152 surveys were sent to participants and 452 to nonparticipants. One hundred and four participants and 225 nonparticipants responded to our survey, respectively. However, we found through our survey that out of 225 nonparticipants, 36 individuals actually participated in the HCTC program, 33 through IRS-HCTC only and 3 in the state program. As such, these 36 responses were included in the participant results.

We also surveyed nonparticipating states to determine why they chose not to participate in the HCTC Bridge and Gap programs. Our sample consisted of 39 surveys of which 38 states responded.

In cases where issues were inseparable or had impact extending to the HCTC program as a whole, we adjusted our work and have included applicable conclusions in the report.

GAO audit reports, private studies and IRS Scorecard information were obtained to provide insights of other work and statistical information regarding the HCTC program.

Criteria

We used the following criteria to perform this audit:

- The Trade Adjustment Assistance Reform Act of 2002 (P.L. 107-210)
- Unemployment Letter (UIPL) No. 02-03 dated October 10, 2002
- Unemployment Letter (UIPL) No. 05-03 dated November 22, 2002
- Training and Employment Guidance Letter (TEGL) No. 10-02 dated October 10, 2002
- Training and Employment Guidance Letter (TEGL) No. 11-02 dated October 10, 2002
- Training and Employment Guidance Letter (TEGL) No. 16-02 dated December 3, 2002
- Training and Employment Guidance Letter (TEGL) No. 20-02 dated March 3, 2003
- Unemployment Letter (UIPL) No. 24-03 dated April 14, 2003
- Unemployment Letter (UIPL) No. 33-03 dated August 18, 2003
- Training and Employment Guidance Letter (TEGL) No. 11-02, Change 1 dated November 6, 2003
- Training and Employment Guidance Letter (TEGL) No. 20-02, Change 1 dated May 13, 2004
- OMB Circular A-87 (Cost Principles for State, Local and Indian Tribal Governments)
- Part 97 of CFR 29 (Uniform Administrative Requirements for Grants and Cooperative agreements to State and Local Governments)

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APPENDIX C

ACRONYMS AND ABBREVIATIONS

ATAA	Alternative Trade Adjustment Assistance
CFR	Code of Federal Regulations
ETA	Employment and Training Administration
FSR	Financial Status Report
GAO	Government Accountability Office
HCTC	Health Coverage Tax Credit
IHC	Intermountain Health Care
IRS	Internal Revenue Service
NEG	National Emergency Grant
OIG	Office of Inspector General
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
SWA	State Workforce Agency
TAA	Trade Adjustment Assistance
TAARA	Trade Adjustment Assistance Reform Act
TEGL	Training and Employment Guidance Letter
TRA	Trade Readjustment Allowance
UI	Unemployment Insurance
UIPL	Unemployment Insurance Program Letter
USDOL	U.S. Department of Labor
WIA	Workforce Investment Act

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APPENDIX D

SURVEY RESULTS – BRIDGE AND GAP PARTICIPATING STATES

As of June 30, 2004, 11 states availed themselves of the Bridge and Gap programs. We surveyed all 11 states of which 10 responded. We asked participating states their opinions as to what they thought were the underlying causes/barriers that resulted in low individual participation. As shown below, states indicated that the cost of insurance, and the complexity of the eligibility process were primary reasons contributing to low participation.

Major Reasons	Percent of Respondents
Premium too costly	80
Complex & fragmented	70
Process time & upfront cost	60
TRA eligibility process	50
Lack of outreach	50
NEG not timely	40

Premium Cost

Overwhelmingly, 80 percent of states responding said that the participant's contribution towards the medical insurance premium (35 percent) while collecting unemployment benefits is cost prohibitive and had a negative impact on participation. One state suggested that allowing the state to make 100 percent payment during the gap period would allow up-front savings to the participant and allow them to prepare for the 35 percent contribution to the IRS-HCTC advance program. Another suggested raising the government contribution to 80 or 90 percent.

Complex and Fragmented System

States indicated that the HCTC system was complex and involved too many parties such as USDOL, IRS, state, and health plan providers. Individuals were confused regarding the intent of the program, the application process and differences between the IRS and state Bridge and Gap programs. The states also stated that the application process overwhelms individuals.

TRA Eligibility Process and Up-Front Costs

Most states indicated that the long TRA eligibility process contributed to the low participation. Some indicated that the items required in determining TAA/HCTC eligibility status (TRA eligible, in training or on wavier) takes a long period of time to establish and hinders a time sensitive benefit. Several months can pass before the complete HCTC eligibility status has been determined and reported to the IRS-HCTC office. During the TRA eligibility process the individual must pay 100 percent of health insurance premium cost. State officials suggested that lifting or relaxing TRA eligibility requirements for HCTC purposes would increase participation in the program.

One state cited that under section 231(a) of TAARA, the first week of potential TRA entitlement is the first week of unemployment that begins more than 60 days after the filing date of a petition that is later certified. An individual is not potentially eligible for HCTC until they are eligible for TRA. As such, the system has an inherent time lag, which requires an individual to pay the cost of continued insurance during that period.

Lack of Outreach

Fifty percent of the states responding indicated the need for increased awareness of the program, outreach, and assistance in the enrollment process. State officials also commented that obtaining PBGC information was challenging and time-consuming or that they were unable to obtain PBGC information.

NEG Timeliness

Forty percent of states indicated that lack of NEG timeliness resulted in delayed implementation of the program. One state indicated that by the time of program implementation it had missed the impact of a major layoff. Another state official commented that the NEG processes were slow and the state spent excessive time and resources to resolve problems.

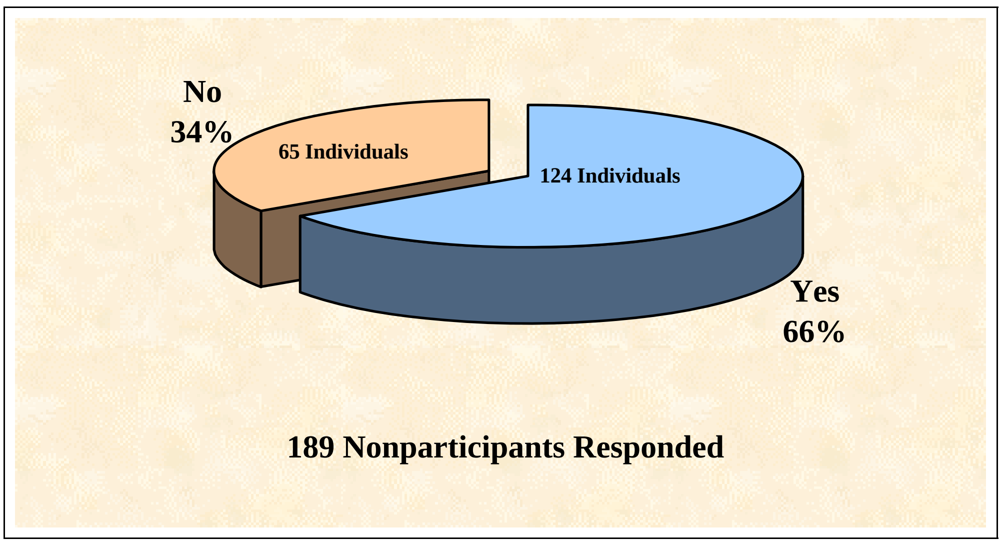
APPENDIX E

SURVEY RESULTS – BRIDGE AND GAP NONPARTICIPANTS

Our survey consisted of a statistical sample of 452 Bridge and Gap nonparticipants of which 225[1] nonparticipants responded to our survey. We found that a majority of nonparticipants were aware of the HCTC program, but chose not to participate due to cost. We also found a significant number of nonparticipants that were unaware of the program and would have considered enrolling.

Were nonparticipants aware of the HCTC program?

Sixty-six percent of nonparticipants answered that they were aware of the program.[2]

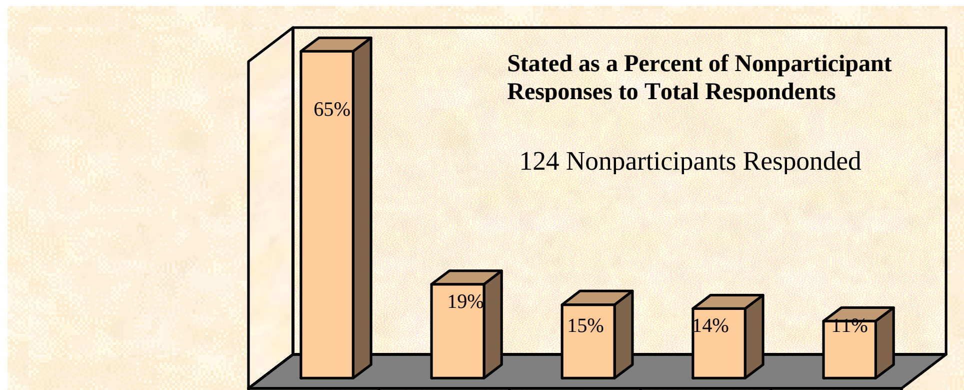


[1] We found through our survey that out of 225 respondents, 36 individuals actually participated in the program, 33 through IRS-HCTC and 3 that participated in the state program. As such, these 36 individuals were included in the participant results. In addition, we asked the 33 individuals why they only participated in the IRS-HCTC program, 85 percent of the individuals that responded stated that they did not know about the state program.

[2] 189 excludes 33 individuals that participated in the National HCTC program and 3 individuals that participated in the state program even though their names were in the sampled nonparticipant universe.

How did nonparticipants learn about the program?

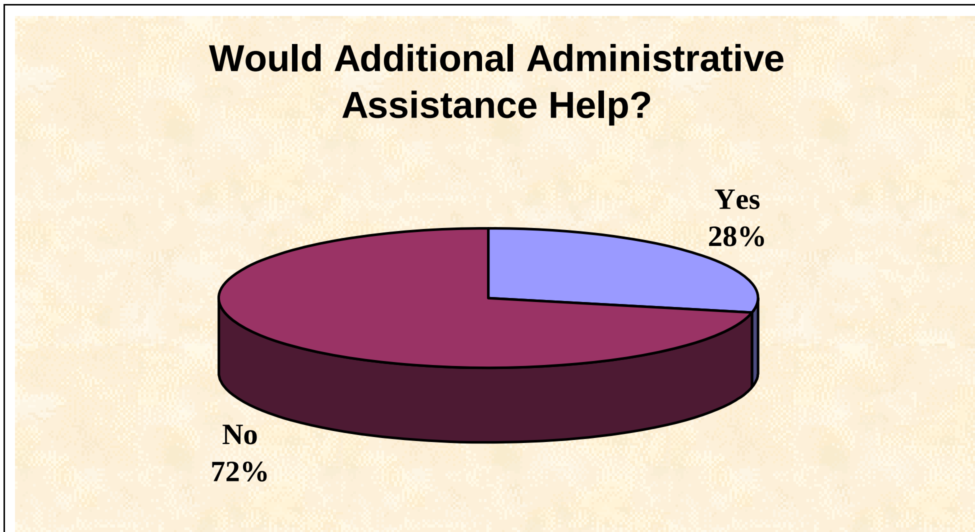
Sixty-five percent of the nonparticipants who were aware of the program answered that they learned about the program through a letter from the state workforce agency.



	Ltr DOL	TAA Session	Union Rep	One Stop Center	Other
No. of Responses	80	23	18	17	14

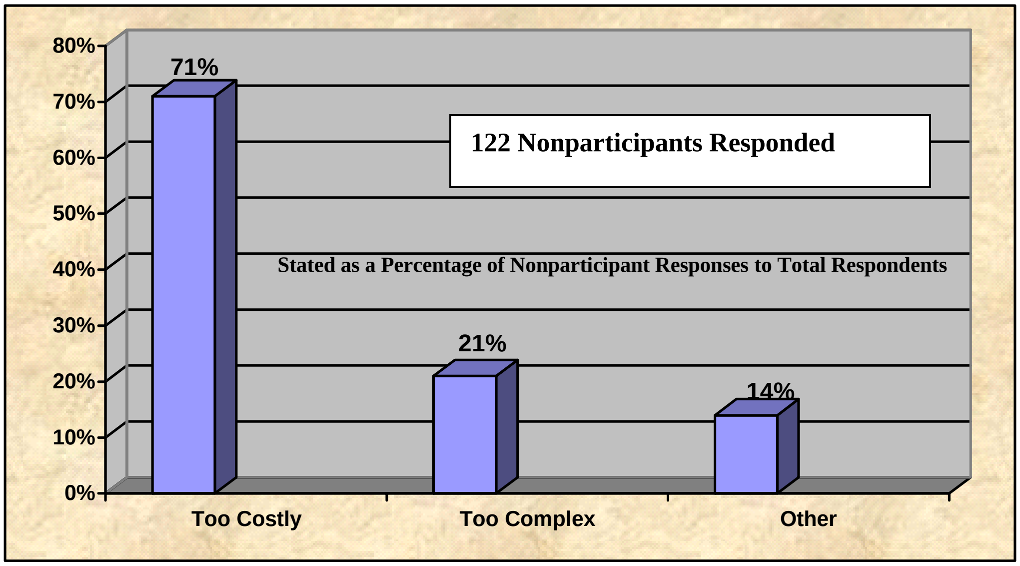
Would additional administrative assistance have increased participation?

Seventy-two percent of the nonparticipants who were aware of the program answered that they would not have participated in the HCTC program even if they had additional administrative assistance in preparing and submitting enrollment forms.



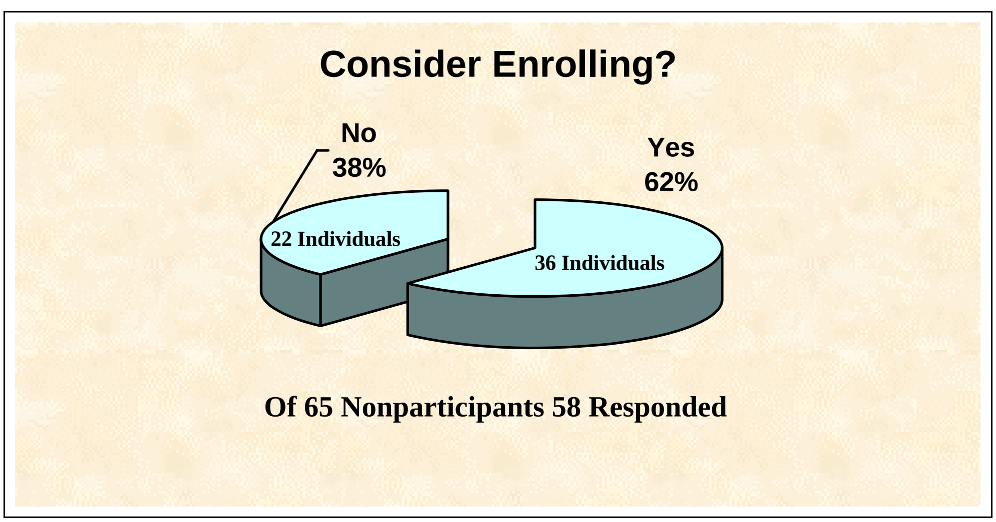
Why nonparticipants who were aware of the program chose not to participate?

Cost was the most significant reason cited by nonparticipant respondents for not participating in the program. As depicted in the chart below, 71 percent of those needing services[3] stated that the premium cost was the biggest issue for not participating.



Would nonparticipants have considered enrolling had they been made aware of the program?

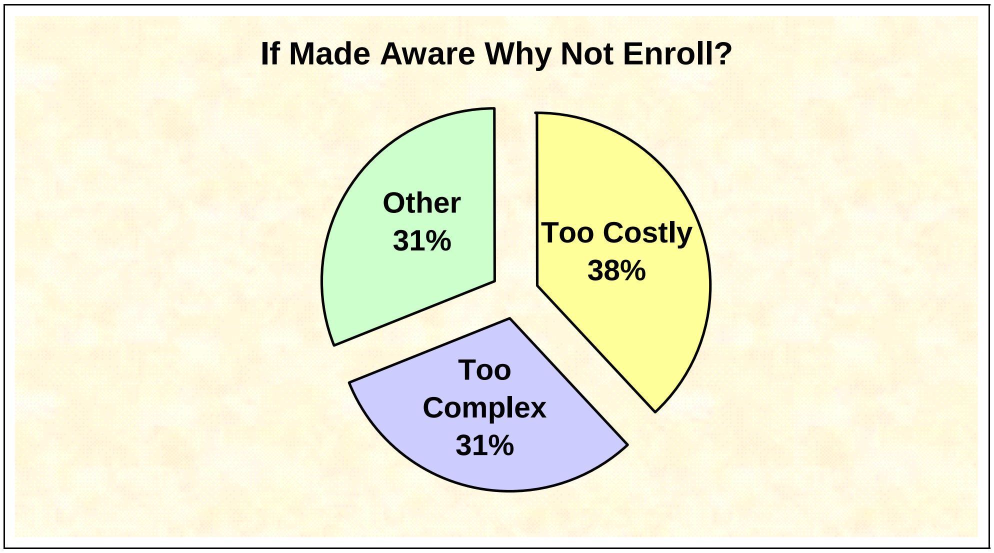
More than 60 percent of individuals that were unaware of the program responded that if they had known they would have considered participating.



[3] Our calculations exclude responses of those individuals who did not need services or did not qualify for the program, i.e., spousal coverage, obtained job, and those who did not qualify, i.e., Medicare.

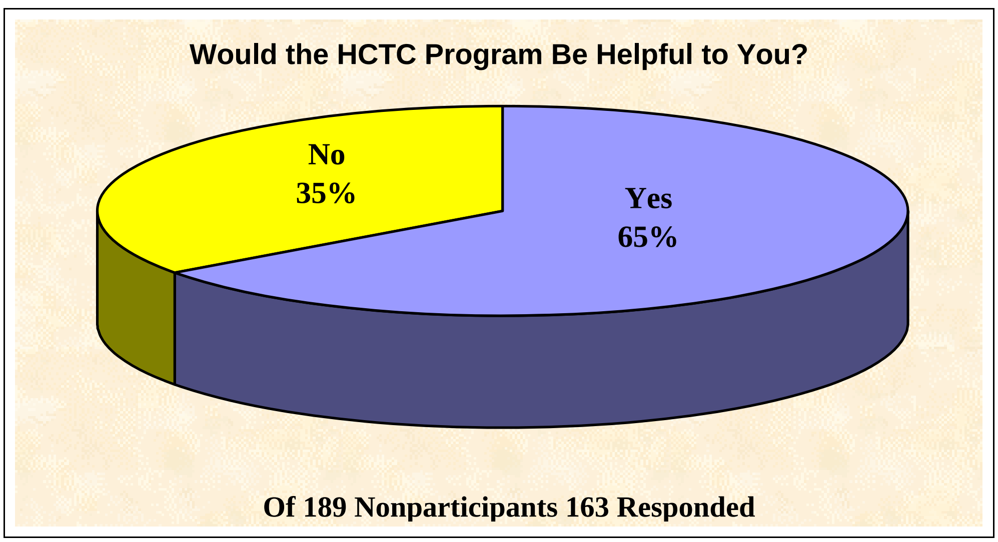
What were the reasons why individuals would not consider enrolling even if they had been made aware of the program?

All 22 nonparticipating individuals responded. As depicted in the chart below, cost and complexity of the program were the primary reasons why individuals would not participate.



Did nonparticipants think the Health Coverage Tax Credit program would be helpful to them?

Sixty-five percent responded that the program would be helpful.



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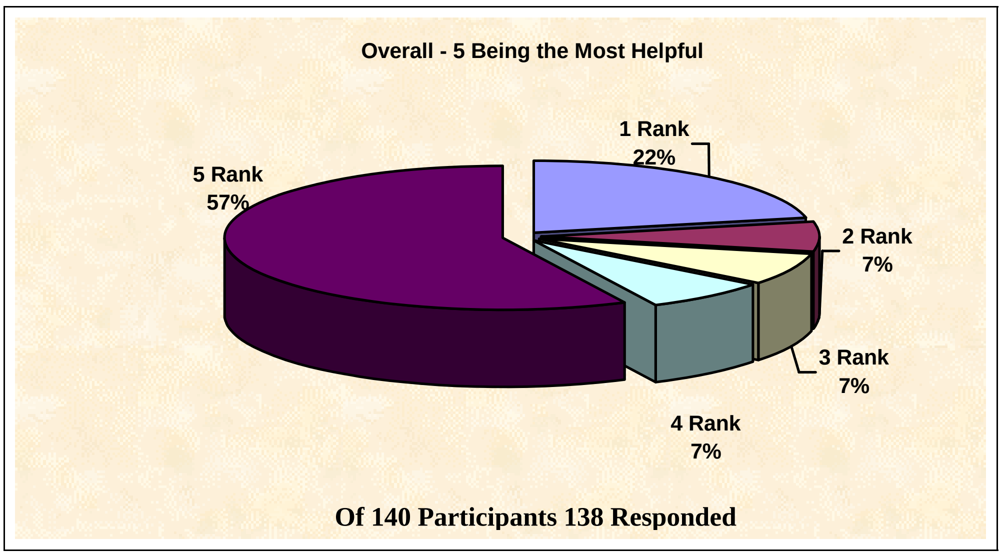
APPENDIX F

SURVEY RESULTS – BRIDGE AND GAP PARTICIPANTS

We surveyed participants to evaluate the effectiveness of the program. Our survey consisted of a statistical sample of 152 Bridge and Gap participants of which 104 participants responded.[1] We found that a majority of participants felt the program was extremely helpful, and the enrollment process was not difficult. Most participants left the program because they obtained insurance through employment or other means. However, participants commented that the program was too complex and costly.

Overall, how helpful did the participants think the program was?

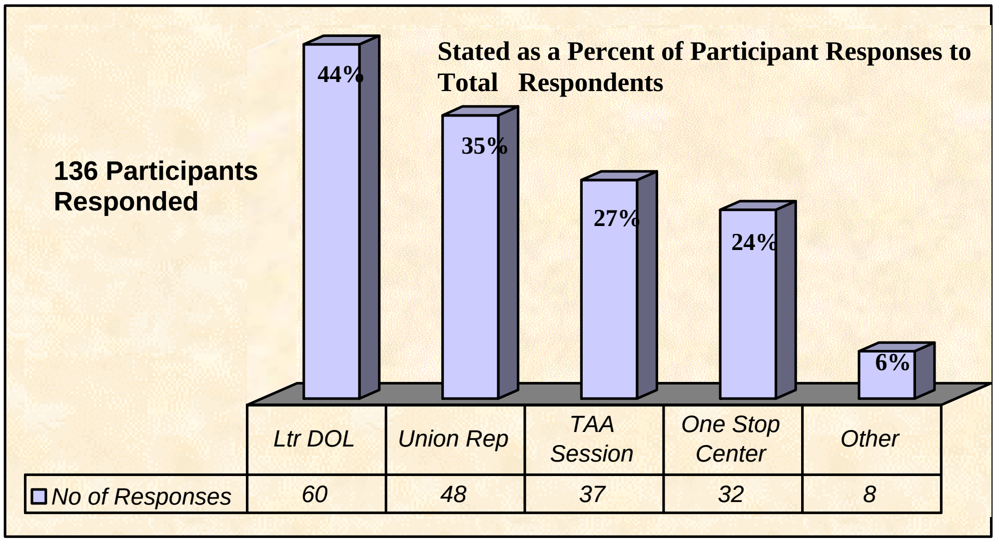
Fifty-seven percent of participants answered that they thought the program was extremely helpful.



[1] Our analysis includes 140 individuals: 104 Bridge and Gap participants and 36 individuals that were originally categorized as nonparticipants who actually participated in the program through IRS or the state.

How did participants learn about the HCTC program?

Forty-four percent of responding participants stated that they learned about the program from a state letter.



How Difficult was the HCTC program enrollment process?

Generally, individuals that participated in the program felt that the enrollment process was not extremely difficult.

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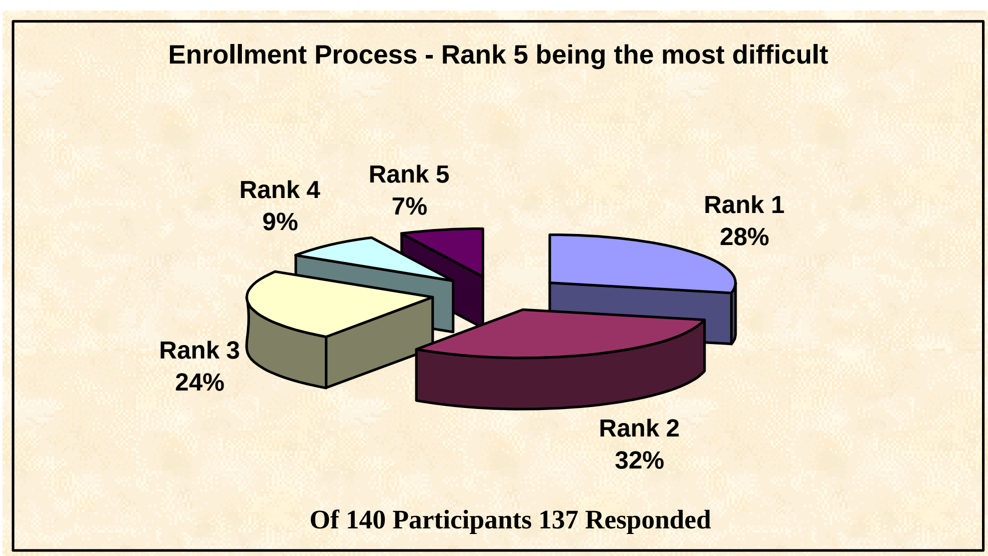
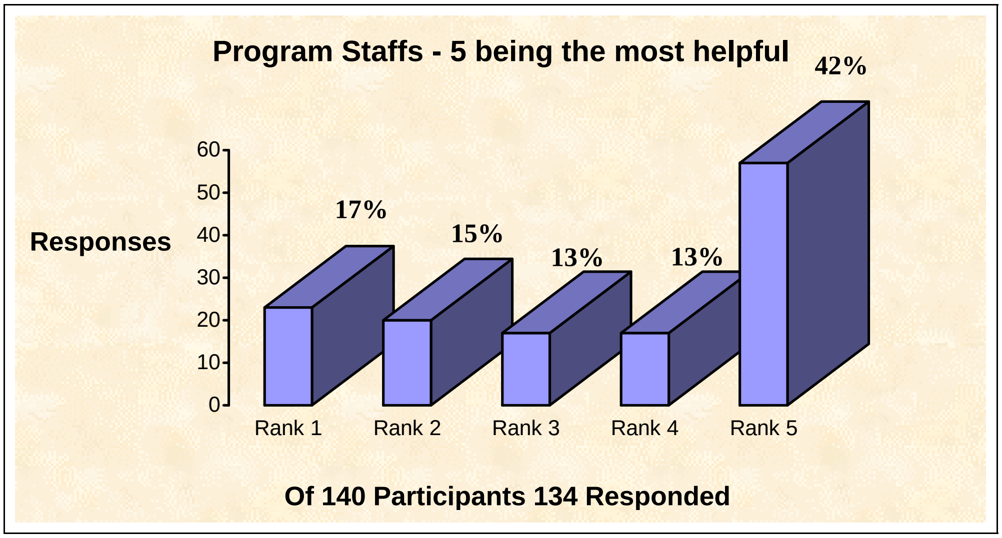


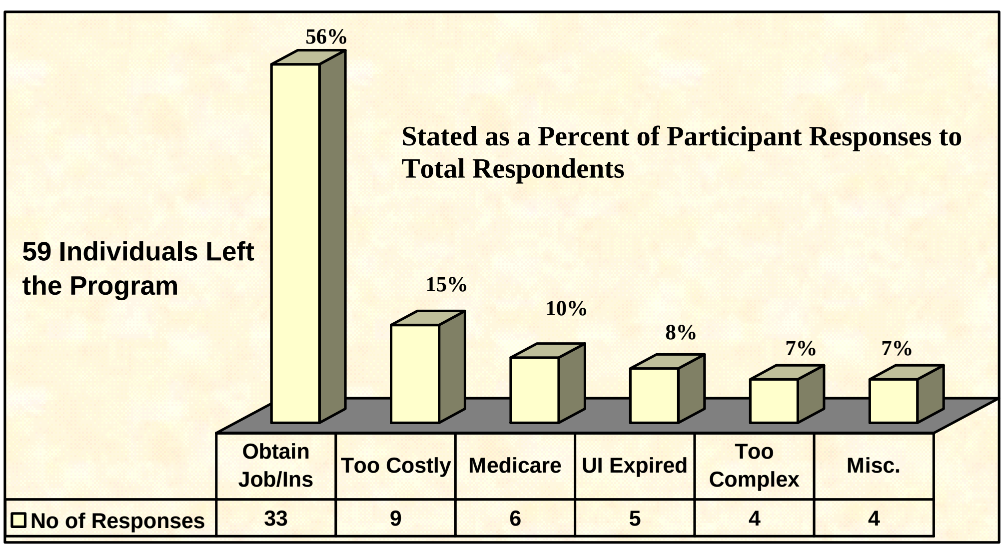
How helpful did participants find the program staff in the enrollment process?

Forty-two percent of the participants responded that the program staff was extremely helpful in assisting them with the enrollment process.



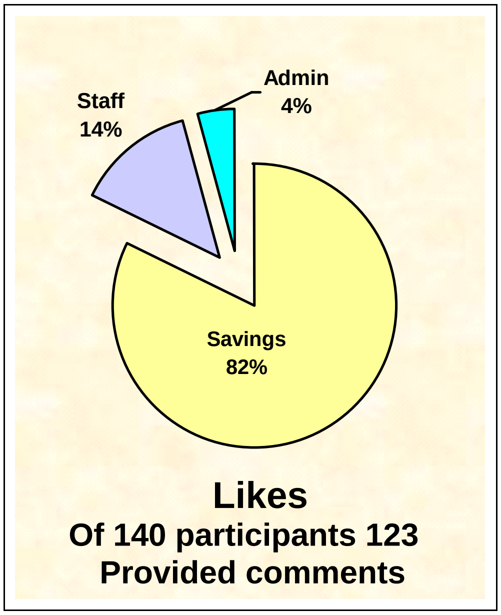
Why participants no longer participate in HCTC?

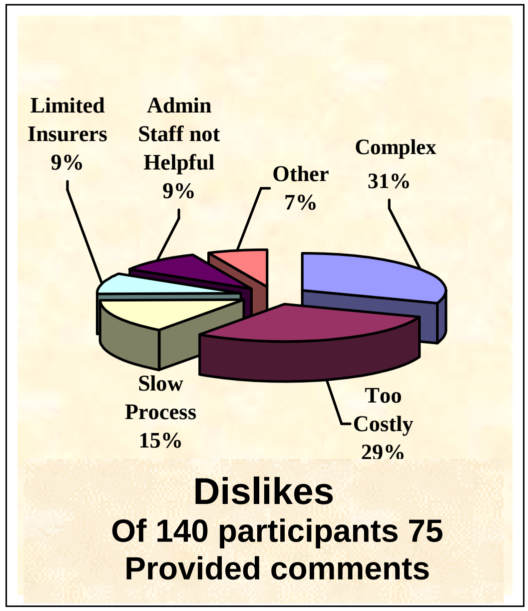
Majority of participants left the program since they were able to obtain insurance through employment or other means.



Supplemental Comments Likes and Dislikes

Participants commented that they liked the cost savings of the program, but still found the program to be complex and costly.





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APPENDIX G

AGENCY RESPONSE TO DRAFT REPORT

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210

SEP 30 2005

MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

FROM: EMILY STOVER DeROCCO Emily Stover DeRocco

SUBJECT: Response to OIG Draft Audit Report
No. 02-05-204-03-330: Audit of
Trade-Health Coverage Tax Credit (HCTC)
Bridge and Gap Programs

On behalf of the Secretary of Labor, thank you for the opportunity to comment on the draft audit report, "Performance Audit of Health Coverage Tax Credit (HCTC) Bridge and Gap Programs." In general, we agree with the findings of the OIG draft report and have responded with actions that the Department has taken or is taking to address the issues identified.

Thank you for the extension of the period to provide comments in light of our efforts to respond to Hurricane Katrina. Attached are the Employment and Training Administration's comments on the draft report.

Attachment

Comments on OIG draft Audit Report No. 02-05-204-03-330

1. Did a Significant Number of Potentially Eligible Individuals Avail Themselves of the Program and Were Appropriated Funds Being Utilized?

The Department agrees that participant and expenditure levels in the Bridge and Gap programs funded through the National Emergency Grant (NEG) process were low through the period of the OIG audit ending June 30, 2004. The NEG funds were appropriated effective August 6, 2002, and were to provide health premium benefits to eligible Trade Adjustment Assistance (TAA), Alternative Trade Adjustment Assistance (ATAA), and Pension Benefit Guaranty Corporation (PBGC) recipients beginning September 1, 2002, for those individuals who did not choose to claim a year-end tax credit for eligible premiums covered without reimbursement. "Potentially eligible" TAA participants are those who are receiving TRA or those who would receive TRA if they had exhausted their unemployment insurance benefits. "Potentially eligible" ATAA participants are those receiving an ATAA wage subsidy payment. "Potentially eligible" PBGC participants are aged 50 or over and recipients of PBGC pension benefits. Also, in order to qualify for premiums under the NEG program, states must have qualified insurance plans or workers must be eligible for COBRA. Initially, most states did not have qualified plans.

2. What Were the Barriers That Resulted in Low Individual Participation?

While the Department concurs in many of the reasons cited in the report as barriers to low participation, it is important to add that states were awarded infrastructure grants to establish mechanisms to process and report claims for health insurance premium assistance, including the bridge program. In order to receive funds to process premium claims under the bridge program, however, states had to establish (or have) qualified health plans as determined by the IRS. Most states did not possess qualified plans, and in many cases, state legislative actions were required, a complexity not initially envisioned.

The report indicates a primary barrier was the effective exclusion of PBGC and ATAA populations during the period of the report. The ATAA program was implemented on **August 3, 2003**, and state implementation of this option to TAA-eligible recipients was available in states on that date. While it is true that the ATAA program has never been widely used by eligible TAA applicants, who must give up any retraining options to avail themselves of the ATAA program, it does not necessarily follow that the ATAA population was effectively excluded from HCTC eligibility because TAA-eligible individuals did not enroll in the ATAA program.

-2-

3. Why Did Most States Not Participate in the Bridge and Gap Programs?

As indicated earlier, funds were awarded to requesting states to develop infrastructure systems to implement HCTC, including the bridge programs. While states have expressed concerns regarding lack of funds to provide reports to the IRS on potential eligible recipients, this argument may be overstated because the bridge program includes administrative funds (some of which can be used to hire staff to run the bridge program). States receive funds for managing the TAA program, which includes outreach; referral to services available under the Trade program, including HCTC; and other program costs. Furthermore, WIA Rapid Response funds are used to provide information on TAA program services as a result in the Trade Adjustment Assistance Reform Act (TAARA) of 2002, which requires rapid response assistance (funded by the WIA formula program for statewide activities) to be provided for all layoffs for which a TAA petition has been filed. In many instances, it is our understanding that TAA petitions are filed as a result of rapid response activities. The Department believes that the provision of rapid response assistance for potentially TAA-certified workers permits workers to learn about HCTC and the requirements related to eligibility for premium assistance.

4. Did States Comply With Pertinent Provisions Set Forth in the Trade Adjustment Assistance Reform Act of 2002, ETA Implementation Guidance, and Federal Laws and Regulations?

In general, states have complied with the pertinent provisions of the law, regulations, and ETA guidance. In some respects, states have had difficulty understanding how to implement some of the provisions due to various approaches each of the Federal partners use. ETA has worked directly with the states and IRS to help the grantees understand what is required of them in administering these grants. (See discussion below on the ETA-IRS-HCTC Office collaboration.)

Recommendations

The OIG Report made 19 recommendations, which it summarized under the headings below. This response will provide a status report of the progress that has been made since the conclusion of the OIG review on June 30, 2004.

-3-

- **Conduct an immediate needs assessment of NEG funds. Based upon the assessment, funds should be redirected as appropriate.**

  While the Department believes there should be ongoing needs assessments on the use of funds available to the NEG, it is also concerned that funds be used as appropriated by the Congress and that, where there was a slow take-up rate of individuals eligible for HCTC premium assistance, funds be available to fill that gap. For example, there are confidentiality issues surrounding the release of information to states vis-à-vis PBGC eligibles. Since such individuals were more than likely not part of the TAA system, the state agencies have no way of easily identifying the workers to provide them with bridge premium payments. Several states and Federal agencies have been actively seeking solutions which are not overly burdensome to any one entity, and we believe progress is being made. Furthermore, Congress recently passed a bill which authorizes states to reprogram NEG funds previously awarded to assist victims of Hurricane Katrina. States will be advised of this opportunity where they determine that excess NEG resources awarded for the HCTC bridge program exist. In other instances, states with NEG funds have expressed interest in partnering with other states that do not have NEG bridge funds to provide premium assistance to eligible individuals not currently having access to such funds. We believe this option holds promise.

- **In consultation with state officials, Federal lawmakers and partnering Federal agencies should develop remedies to identified barriers related to participant share of premium cost and participant up-front cost. In addition, develop remedies applicable to the complexity of the eligibility process, lack of coordination with the PBGC, increasing awareness at the One Stop level, working with partners towards a seamless process, and providing NEG funds on a timely basis.**

  The Department concurs that there are many opportunities for improvement. Some require Congressional action (e.g., portion of the premium for which the worker is responsible), while others require a review of current administrative processes (e.g., to streamline the eligibility process for determining whether an individual is eligible to receive a premium payment and whether the proposed health insurance is a qualified plan under the Trade Reform Act of 2002; enhancement of the rapid response system under WIA to better inform workers impacted by Trade; and more comprehensive information available through the more than 600 One-Stop Career Centers across the nation). We do not concur that there has not been coordination with the PBGC, which has been a partner with other government agencies since before the implementation of HCTC.

-4-

The Report indicates a take-up rate of approximately 4.8 percent of the cumulative potentially eligible trade-affected workers participating in the bridge or gap programs funded by NEGs through June 30, 2004. It is important to note that the take-up rate for the same period of time for individuals who enrolled in TAA-funded training was approximately 30 percent, and generally it is those enrolled in training who would be eligible for TRA. Data are not available on the number of workers whose spouses may be receiving health insurance benefits under a family plan, the number who may be eligible for Medicare, etc. Since the period covered by the OIG report, the IRS reports that approximately 7 percent of the potentially eligible individuals took advantage of the advance tax credit component in August 2005.

Page 14 of the report indicates that Maryland and Maine did not have a system in place to identify and report eligible ATAA participants. As indicated previously, ATAA participants can only be identified when they enroll in the program. For example, Maryland did not have any enrollees in the ATAA program at the time of the OIG review, and thus there was no need to identify any participants. Since the funding stream for ATAA individuals is separate, it is likely that they could easily identify them if any such participants existed. One of the factors to consider regarding low participation in ATAA is that the worker is no longer eligible for training.

The report indicated that some states portrayed the eligibility process as a long and cumbersome one. The Department will review the processes in place but notes that many parts of the process for Trade eligibility have been streamlined over the past two years. For example, the focus of rapid response assistance on the trade program has decreased the amount of time between the announcement of a layoff and the filing of a petition; the timeframe for making a determination on petitions has decreased from 103 days to less than 40 days; and the focus of the Department on the integration of services for all dislocated workers was to ensure early intervention assistance for workers who do not have to be TRA recipients in order to qualify for HCTC, once it was determined by the state that they would be eligible for TRA if their unemployment benefits had been exhausted. The period of time between layoff and enrollment in Trade training, however, may be a factor that needs to be reviewed. As with all dislocated workers, the period of time between layoff and employment-related service intervention (including training) has been shown to decrease the period of unemployment.

-5-

- **Work with non-participating states to address identified barriers to enhance participation. Clarify guidance pertaining to the use of administrative funds and availability of funds for the development of infrastructure systems. In addition, consider, where feasible, centralizing processing systems or utilizing systems already in place.**

  The Department and its partner agencies will continue to address the issues raised by states to help them in: 1) the development of qualified health plans; 2) the development or modification of electronic systems to enable states to streamline applicable processes; and 3) the identification of potentially eligible individuals. It is important to note that DOL issued TEGL No. 10-02 on October 10, 2002, informing states of the availability of infrastructure funds and how to apply for them. Partner Federal agencies visited representatives in high impact states early in the process to discuss HCTC and offered help and guidance. In addition, DOL held forums at six locations across the country in late 2003 and early 2004 on integration of services for dislocated workers, which included segments on Trade and HCTC, with representatives of the IRS HCTC team. As indicated above, we are also working with some states with bridge funds that are willing to help other states and eligible TAA-eligible individuals with initial premium payments.

- **Work with the IRS-HCTC office to implement a consistent system of communication between the states and the IRS-HCTC and ensure that proper controls are instituted to safeguard Federal funds. Reinforce grant management policies, which require monitoring and assessments on a regular basis to ensure compliance with grant provisions, ETA guidance, and Federal laws and regulations.**

  The Department has worked closely with the IRS-HCTC office since the passage of the Trade Reform Act of 2003 and the commencement of HCTC planning, and will continue to do so. There are monthly or bi-monthly conference calls which include representatives from the IRS-HCTC, ETA, and states. The IRS-HCTC has representatives available by region to work with states, and both the IRS and HHS have worked with states on developing qualified health plans. Regarding DOL monitoring of NEG HCTC grants, the Department has clarified the roles and responsibilities for monitoring all NEG projects since the OIG review ended in 2004, and the On-Site Review Guide is currently under review to update and clarify, as appropriate. Special attention will be given to the HCTC projects.