

July 7, 2005

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



FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Complaint Involving the Goodwill Industries of
Lower South Carolina, Inc.
Report No. 04-05-001-03-386

A complaint stated that the Goodwill Industries of Lower South Carolina, Inc. (GILSC) claimed excessive matching contributions for Technology and Job Readiness training classes provided to Welfare-to-Work (WtW) participants. According to the complaint, the \$600.00 per participant attributed to the training was more than the amount charged to the general public and a nonprofit organization. Based on our audit results, we conclude that GILSC did not claim excessive matching contributions for the training provided to the WtW participants enrolled in the program. However, we found that:

1. GILSC submitted two invoices for the month of January 2003. Each of these invoices included costs and adjustments that duplicated costs and adjustments in the other invoices. The net total of these duplicate costs and adjustments was \$24,004.30.
2. GILSC officials were unable to support a \$20,500.00 charge to Job Readiness training.
3. The County of Charleston, Grants Administration (the County) and GILSC could not provide us with two contract modifications to contract 2DR9093, which was the contract between the County and GILSC during the relevant time period. A third modification to the contract was unsigned by the GILSC.

The South Carolina Employment Security Commission (SCESC) authorized the Trident Local Workforce Investment Area¹ to spend a total of \$1,350,063.00 of Fiscal Year 1999 WtW Formula Grant funds. Of that total, \$389,900.00 was contingent upon the grant

¹ The Trident Local Workforce Investment Area consists of Berkeley, Charleston and Dorchester counties.

recipient, the County, receiving an agreement from the GILSC to provide \$194,186.00 in matching contributions.² The County signed contract number 2DR9093 with GILSC to provide a variety of services to eligible program participants, including: work experience, job readiness, job placement, and training. The contract began on April 1, 2002, and continued in operation until January 23, 2004, when all FY 1999 Formula Grants to States were rescinded by enactment of Public Law 108-199. Under this contract, GILSC reported matching contributions of \$166,195.50 and grant expenditures of \$309,480.31.

Objective, Scope and Methodology

We audited an allegation made by a former employee of GILSC that the organization claimed excessive matching contributions for Technology and Job Readiness training provided to WtW participants. According to the complaint, the \$600.00 per participant claimed for the training was more than the amount charged to the general public and a nonprofit organization. The alleged excessive claims occurred during April 1, 2002, through January 23, 2004.

To determine the merits of the allegation, we interviewed County and GILSC officials, reviewed audit and monitoring reports, contracts, and invoices. We also obtained training price lists from Goodwill Industries and its Internet website and compared the prices offered to the general public with the amount claimed for training provided to WtW participants.

To assess whether the amount GILSC claimed per participant for training exceeded the cost associated with providing the training, we obtained payroll information from GILSC for the three instructors used to train WtW participants. We verified the accuracy of the payroll data by reviewing each instructor's personnel file and select payroll records. Using the instructors' salaries and fringe benefits as a basis, we estimated the average instructor cost for one 4-week Technology and Job Readiness training class. We then divided the average instructor cost per class by the average number of students enrolled in each class. We determined the average class size by obtaining a list of participants who were enrolled in the training and divided this number by the number of classes taught. To test the accuracy of the training list, we judgmentally selected 15 of 116 participant files and verified that each file supported the participant's enrollment in training. Because we concluded that the average instructor cost per participant exceeded the amount claimed by GILSC for the training, we did not find it necessary to perform any additional steps to determine the average cost per student for such costs as space, equipment and supplies.

We also obtained invoices submitted by GILSC to the County during our audit period and identified matching contributions and costs that were included in the invoice line items Pre-Vocational Training and Job Readiness. We then reviewed the documentation that supported these invoiced contributions and costs.

² WtW regulations at 20 Code of Federal Regulations (CFR), Section 645.300(a) allow states to receive \$2 in Formula Grant funds for every \$1 in matching funds provided, up to the limit of each state's allotment.

Fieldwork was performed at the County and GILSC offices in Charleston, South Carolina, June 1, 2004, through June 17, 2004. Our testing of internal controls focused only on those controls related to our audit objective of determining whether the allegation could be substantiated, and were not intended to form an opinion on the adequacy of internal controls overall, and we do not render such an opinion. Our audit was performed in accordance with *Government Auditing Standards*.

RESULTS, FINDINGS AND RECOMMENDATIONS

Results

The allegation was not substantiated, since we found that GILSC did not claim excessive matching contributions for Technology and Job Readiness training provided to participants. We found that the amount claimed was less than the amount offered to the general public for similar training. Additionally, we found that the \$600.00 per participant attributed to matching contributions for the training was less than the instructors' average costs to conduct the training.³

Although the complaint was not substantiated, we did find questioned costs and other matters as follows:

FINDINGS:

- A. Invoices Contained Duplicate Costs: Administrative requirements do not allow Federal funds to be used as matching contributions. The Office of Management and Budget (OMB) Circular A-110, Subpart C.23(a)(5) states that cost sharing or matching shall be accepted if they "are not paid by the Federal Government under another award. . . ."

GILSC submitted two invoices to the County for the month of January 2003. One invoice contained program costs that were being claimed as matching contributions and the other invoice was submitted for reimbursement against the WtW grant. Each of these two invoices included costs and adjustments that duplicated costs and adjustments in the other invoice. The net amount of the duplicate costs and adjustments was \$24,004.30. (See Exhibit 1.)

When we brought the duplicate invoices to the attention of the County, the County's Financial Director investigated these invoices. The Financial Director told us that, after discussion with GILSC officials, the invoice submitted by GILSC officials to support their matching contributions was submitted in error, leaving the other January invoice submitted for reimbursement as the correct invoice. Given this explanation, we concluded that the \$166,195.50 reported as in-kind matching contributions during the

³ Because we found that the amount GILSC attributed to the training was less than its average instructor costs, we concluded that WtW grant funds would not have been used to supplant the training costs of another program's participants. Therefore, the issue of whether GILSC chose to subsidize another program's training was irrelevant.

period July 1, 2002, through January 31, 2003, was incorrect. The reported amount must be reduced by the \$24,004.30 in net duplicate charges, leaving \$142,191.20 of matching contributions and \$284,382.40 of allowable grant funds. (See Exhibit 2.)

The County retained \$20,000.00 of the grant to cover administrative and eligibility costs, further reducing the available grant funds to \$264,382.40. County officials paid GILSC a total of \$309,480.31, which exceeded the grant funds available to them by \$45,097.91.

Subsequent to our identification of the duplicate costs, GILSC officials informed the County that their general ledger detail listings contained sufficient matching contributions to support their level of grant reimbursement. We obtained a copy of the documentation provided to the County and found that it was a detailed listing and summary of GILSC's grant expenditures and its receipt of grant funds. The difference between the total grant expenditures and receipts was \$168,265.63.⁴ Some of these costs were not previously reported. Since the grant has been closed and WtW grant funds are no longer available, if GILSC were to request reimbursement, the request would be denied.⁵ Consequently, we question costs of \$45,097.91 that were charged to the grant in excess of the allowable grant amount.

- B. Costs Charged for Job Readiness Were Not Supported: OMB Circular A-122, Attachment A, A.2.g states that for a cost to be allowable, it must "be adequately documented."

GILSC could not provide documentation that supports a \$20,500.00 charge to Job Readiness training. The \$20,500.00 was included as a lump sum charge on a January 2004 invoice, and it was the first charge to Job Readiness training under contract 2DR9093. We were told that this charge was intended to cover personnel costs incurred for Job Readiness throughout the contract period.

We asked GILSC's Vice President of Financial Services to explain how the \$20,500.00 amount was derived and to examine the documentation that supported this amount. This official did not adequately explain how the \$20,500.00 was calculated, nor could he produce time sheets showing the dates and hours their instructor spent serving WtW participants.

We also found that the County failed to determine whether this charge was properly supported. County monitors reviewed a sample of documentation supporting GILSC invoices during periodic monitoring visits. Our review of the County's monitoring documentation revealed that the \$20,500.00 charge was included in one of its periodic reviews. One document contained a notation that indicates the \$20,500.00 was equal to

⁴ GILSC booked WtW grant expenditures, net of adjustments, of \$560,842.76 and booked income of \$392,577.13. The difference between these two amounts is what GILSC claimed as its matching contributions.

⁵ Employment and Training Administration (ETA) Training and Employment Guidance Letter No. 19-03, Attachment A, states: "After the closeout process has been completed, there will be no Federal funds available to pay for allowable late claims. State and/or local funds will be necessary to pay for any such costs."

41 clients multiplied by \$500.00. Upon questioning County officials responsible for the financial monitoring, the officials could not specifically recall the notation or whether they had reviewed the \$20,500.00 charge. The appearance of this large sum at the end of the contract period to a line item to which no prior charge had been made warranted further scrutiny. The County should have determined whether proper support existed for the \$20,500.00 charge to Job Readiness.

The instructor's time was not maintained and reported on a regular and timely basis. The precise amount of time chargeable to the grant for Job Readiness instruction is not determinable in the absence of proper documentation. Without sufficient support, the \$20,500.00 should not have been charged to the WtW grant. Therefore, we question the \$20,500.00 as an unallowable cost.

- C. Contract Modifications Were Missing: An administrative requirement at 29 CFR, Part 97.42 requires that grantees retain records for a minimum of 3 years from the date of their last expenditure report submittal. The County of Charleston submitted its closeout package to the SCESC with a submittal date of March 22, 2004.

The County signed a contract with GILSC to provide a variety of services to eligible program participants, including: work experience, job readiness, job placement, and training services. The County and GILSC were unable to find the first two modifications to the contract, and one additional modification was found unsigned by GILSC.

The contract was signed soon after the SCESC notified County officials that \$389,900.00 in Federal WtW funds would be released to them contingent upon their reaching an agreement with GILSC to provide \$194,186.00 in matching contributions. The contract was originally for the period April 1, 2002, through June 30, 2003, and its total allowable costs were \$200,891.00. However, we found evidence to indicate that contract modifications extended the contract period to April 23, 2004, and increased the maximum allowable costs to \$312,391.00.⁶

According to the County's Finance Director, contracts and contract modifications are maintained in a locked filing cabinet, but the modifications to contract 2DR9093 were not found.

Without signed contract modifications, County officials could not provide proper evidence that their contract with GILSC was extended beyond June 30, 2003, or that allowable costs had been increased.

⁶ Contract modification number 3, unsigned by GILSC officials, included effective dates of July 1, 2003, through April 23, 2004. Use of these dates may indicate the contract date had been extended in a prior modification. Additionally, a letter from the County's Grants Administrator informed GILSC that their allowable contract costs were \$312,391.00, which also may indicate that the allowable costs had been increased.

Recommendations:

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

1. Recovers \$45,097.91 of questioned costs from the County that were charged to the grant in excess of the allowable grant amount.
2. Recovers \$20,500.00 of questioned costs from the County for an unsupported charge to the grant for Job Readiness training. Recovery of any of the \$20,500 questioned costs related to Job Readiness training would reduce the total amount charged against the grant. These recovered costs would reduce the amount charged in excess of the allowable grant amount (see recommendation 1, above). Therefore, the total amount of questioned costs should not exceed \$45,097.91.
3. Requires the County to prepare and implement sufficient written policies and procedures, to verify that Federal grant expenditures are properly supported and do not duplicate matching contributions previously claimed.
4. Requires the County to prepare and implement written policies and procedures, to prevent grant funds from being paid to contractors without verifying that contracts and modifications have been returned and signed by the contractor.

SCESC and Charleston County Response:

SCESC and the County stated that total expenditures for which GILSC was not reimbursed exceeded its match requirements. While the County agrees with the Office of the Inspector General (OIG) that these costs were not reported during the grant period, the costs were “expended” during the grant period. Therefore, the County plans to ask the Employment and Training Administration (ETA) to allow GILSC to use the WtW costs for which it was not reimbursed to support their match requirements.

SCESC and the County stated that GILSC is still unable to substantiate the \$20,500.00 charges for the Job Readiness class. Consequently, these charges will be returned to ETA. On June 15, 2005, Goodwill Industries sent the SCESC a check in the amount of \$20,500 (pay to the order of the U. S. Department of Labor), which represents a duplicate payment for services submitted in error. On June 22, 2005, SCESC forwarded the check to U.S. Department of Labor/ Office of Financial Administration Management for processing.

The County’s Grant Administrator will establish written policies and procedures that prevent grant expenditures from being paid and also claimed as matching contributions; and prevent grants funds from being paid to contractors without verifying that contracts

and modifications have been returned and signed by the contractor. See Appendix for SCESC and Charleston County response to the draft report.

OIG's Conclusion

We have considered SCESC's and the County's joint response to the draft report. SCESC has recovered \$20,500.00 from the County for an unsupported charge to the grant for Job Readiness training and returned these funds to ETA. This action implements Recommendation 2. No additional information was provided that materially affects the report. Therefore, the report findings remain unchanged. The recommendations will be resolved during DOL's formal resolution process.

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The subject final report is submitted for your resolution action. We request a response to this report within 60 days. It is your office responsibility to transmit the attached report promptly to the program officials for resolution.

If you have any questions about this report, please contact Michael K. Yarbrough, Regional Inspector General for Audit in Atlanta, at (404) 562-2341.

Attachment

cc: Laura Patton Watson, Grant/Contracting Officer
Division of Resolution and Appeals Closeout Unit
Phyllis Newby

EXHIBIT 1

Schedule of Duplicate Costs and Adjustments

Reported Matching Contributions				\$166,195.50
Duplicate Costs:				
Work Experience	\$8,040.10			
Pre-Vocational Training	6,755.00			
Direct Training Staff Salaries	6,314.68			
Incentives	1,349.81			
Supportive Service	659.93			
Operating	592.88			
Administrative Staff Salaries	87.25	\$23,799.65		
Duplicate Adjustments:				
Operating Expenses	408.72			
Administrative Salaries	145.93			
Voided Checks	(350.00)	204.65		24,004.30
Contributions Less Duplicate Costs and Adjustments				\$142,191.20

EXHIBIT 2

Schedule of Amount Exceeding Allowable Grant Funds

Total Amount Invoiced				\$309,480.31
Calculation of Adjusted Grant Funds:				
Reported Matching Contributions	\$166,195.50			
Less Duplicate Costs and Adjustments	<u>24,004.30</u>			
Actual Contributions	\$142,191.20			
Actual Contributions	\$142,191.20			
		X 2		
Allowable Grant Funds	<u>\$284,382.40</u>			
Less County Administrative Costs	(20,000.00)		264,382.40	
Amount Exceeding Allowable Grant Funds				\$45,097.91

SCESC and Charleston County Response to Draft Report

COMMISSIONERS
J. William McLeod
Becky D. Richardson
McKinley Washington, Jr.

EXECUTIVE DIRECTOR
Roosevelt T. Halley
803.737.2617



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1550 Gadsden Street
Post Office Box 995
Columbia, South Carolina 29202

June 13, 2005

June 10, 2005
Mr. Michael K. Yarbrough
Regional Inspector General for Audit
U.S. Department of Labor – OIG
61 Forsyth Street, S.W., Room 6T20
Atlanta, Georgia 30303-3104

SUBJECT: Goodwill Industries of Lower South Carolina
Draft Audit Report No. 04-05-001-03-386

Attached is the response of the South Carolina Employment Commission and Charleston County to above referenced draft audit report prepared by your office. This response addresses all the findings and recommendations contained in the report

If you have any questions, please contact Abraham S. Khalil at (803) 737-2674 or Sam Davenport at (803) 737-2675

Sincerely,

Roosevelt T. Halley
Roosevelt T. Halley
Executive Director

ASK/srd
Attachment
cc: Jean Sullivan
ESC-2



Evelyn DeLaine-Hart
Director

GRANTS ADMINISTRATION

843.202.6960
Fax: 843.202.6961
Lonnie Hamilton, III Public Services Building
4045 Bridge View Drive
North Charleston, SC 29405-7464

June 10, 2005

Mr. Samuel R. Jordan,
SWIAD Director
SC Employment Security Commission
1550 Gadsden Street
Columbia, South Carolina 29202

RE: Complaint Involving the Goodwill Industries of Lower South Carolina Draft Report
No. 04-05-001-03-386

Dear Mr. Jordan:

Please find attached a copy of Charleston County Grants Administration's response to the draft audit report of Goodwill Industries of Lower South Carolina. The response was completed in coordination with staff at Goodwill Industries.

If any additional information is needed, please contact Jean Sullivan at 202-6960.

Sincerely,

Evelyn Delaine Hart
Grants Administrator

Charleston County Grants Administration
Response to Audit Findings for Goodwill Industries
June 9, 2005

Finding 1: Invoices Contained Duplicate Costs

This finding is based on the fact that Goodwill staff submitted an invoice for January 2003 in the amount of \$24,004.30. This invoice was also inadvertently filed again to support their matching requirements. After the error was brought to their attention Goodwill completed a detailed ledger with all costs of the Welfare to Work Program (W-t-W). This ledger was reviewed by the auditor from Office of Inspector General (OIG) and Charleston County Grants Administration. Based on this information, the total expenditures for which Goodwill was not reimbursed exceeded their match requirements. A detailed monitoring of this ledger has not taken place, but Charleston County plans to review the actual costs submitted in the report.

Charleston County is requesting that the Employment and Training Administration (ETA) allow Goodwill to use the W-t-W costs they accumulated to support their match requirements. While we do agree with the OIG auditor that these costs were not "reported" during the grant period, they were "expended" during the grant period. We do not believe allowing this will violate ETA's Guidance Letter No. 19-03 pertaining to close out, which states that no Federal funds will be available to pay late claims; in this case no additional funds are being requested.

We respectfully submit that consideration be given to Goodwill's mission and willingness to contribute to the citizens of this area. Goodwill provided the local area with a way to access \$389,000 for the benefit of those most in need of assistance. We do not feel that they should be penalized for this inadvertent error.

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Finding 2: Costs Charged for Job Readiness were not supported:

After a lengthy and careful review, Goodwill is still unable to substantiate the charges for the Job Readiness class in the amount of \$20,500. These funds will be returned to ETA. As to the auditors contention that “the appearance of this large sum at the end of the contract period warranted further scrutiny”, the County submits that this sum did not appear out of the ordinary due to the fact that the program was ending and all participants had to be placed in jobs. Also, due to the nature of the W-t-W program we did not consider it unusual that Goodwill had not previously reported any costs for job readiness.


Finding 3: Contract Modifications Were Missing:

Charleston County Grants Administration will establish written policies and procedures that prevent grant funds from being paid to contractors without verifying that contracts and modifications have been returned and signed by the contractor.

Also in the event that Charleston County allows an agency to provide the match requirements for any federal program, policies and procedures will be established to prevent grant expenditures from being paid and also claimed as match.

COMMISSIONERS
J. William McLeod
Becky D. Richardson
McKinley Washington, Jr.



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EXECUTIVE DIRECTOR
Roosevelt T. Halley
803.737.2617

1550 Gadsden Street
Post office Box 995
Columbia, South Carolina 20202

June 22, 2005

Mr. Tyrone Wells
Supervisor, Reporting Unit
U.S. DOL/Office of Financial Administration Management
Francis Perkins Building, Room N4702
200 Constitution Avenue
Washington, D.C. 20210

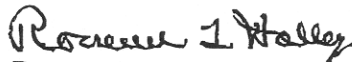
SUBJECT: Goodwill Industries of Lower South Carolina
Draft Audit Report No. 04-05-001-03-386
Grant #Y6455-8-00-81-50/60
Year of Funds PY99 Welfare-to-Work

Dear Mr. Wells:

Enclosed is check #30382 in the amount of \$20,500 from Goodwill Industries of Lower South Carolina. The check represents the refund to costs disallowed in the above referenced draft audit. We are requesting that you deposit this check immediately to ensure that funds are available in the account.

If you have questions, please call Abraham S. Khalil, Director of Internal Audit and Review at (803) 737-2674.

Sincerely,


Roosevelt T. Halley
Executive Director

ASK/srd
Enclosure

cc: Mr. Michael K. Yarbrough
Mr. Jim Schlottman