

U.S. Department of Labor

Office of Inspector General—Office of Audit

**EMPLOYMENT AND TRAINING
ADMINISTRATION**



**AUDIT OF THE LOUISIANA NATIONAL
EMERGENCY GRANT**

Date Issued: September 28, 2007
Report Number: 04-07-008-03-390

BRIEFLY...

Highlights of Report Number 04-07-008-03-390, a report to the Assistant Secretary for Employment and Training

WHY READ THE REPORT

On August 29, 2005, Hurricane Katrina came ashore along the Louisiana, Mississippi, and Alabama coasts, causing estimated losses of more than \$100 billion. In response, President Bush declared a major disaster for each of these States under the authority of Robert T. Stafford Disaster Relief and Emergency Assistance Act. To assist in the recovery efforts, the Employment and Training Administration (ETA) awarded the Louisiana Department of Labor (LDOL) a \$62.1 million National Emergency Grant (NEG). The purpose of the NEG was to create temporary jobs to assist in disaster cleanup and restoration efforts, and to provide training opportunities that might lead to permanent employment.

WHY OIG DID THE AUDIT

The OIG conducted a performance audit to determine whether LDOL spent NEG funds in accordance with Federal requirements, and reported NEG activities and outcomes accurately. The audit covered grant expenditures and performance data from September 1, 2005, through March 31, 2006.

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/2007/04-07-008-03-390.pdf>

September 2007 Audit of the Louisiana National Emergency Grant

WHAT OIG FOUND

With few exceptions, OIG found that Louisiana spent its NEG funds in accordance with Federal requirements, and reported NEG activities and outcomes accurately. Overall, tested grant expenditures were allowable, reasonable, properly allocated and accurately reported. We noted a few exceptions at the Jefferson Parish Workforce Connection (JPWC) that involved employee time distribution, discrepancies in participants' hours worked at five sub-contractor locations, reporting expenditures on the cash basis rather than the required accrual basis of accounting, and a lack of specific controls to review and verify subcontractor invoices prior to making payment.

NEG activities and outcomes were accurately reported with one exception. We found LDOL reported 7 out of 120 sampled NEG participants as temporarily employed even though they never worked.

WHAT OIG RECOMMENDED

We recommended that the Assistant Secretary for Employment and Training direct LDOL to ensure that JPWC:

- Adheres to a cost allocation plan for employee time distribution.
- Reviews and verifies subcontractor invoices before making payments.
- Reports expenditures based on the accrual accounting method.
- Develops specific written procedures for reviewing invoices.

We also recommended that the Assistant Secretary direct LDOL to ensure that participant employment activities are reported accurately.

LDOL stated that it agreed to all findings and recommendations in the report.

Table of Contents

	PAGE
EXECUTIVE SUMMARY	3
ASSISTANT INSPECTOR GENERAL'S REPORT.....	5
RESULTS AND FINDINGS	
1. With few exceptions, tested NEG expenditures were allowable, reasonable, allocable and accurately reported	6
2. Overall, NEG activities and outcomes were reported accurately.	10
APPENDICES	13
A. Background	15
B. Objectives, Scope, Methodology, and Criteria	17
C. Acronyms and Abbreviations.....	21
D. Auditee's Response.....	23

PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Executive Summary

The Office of Inspector General conducted a performance audit of the \$62.1 million National Emergency Grant (NEG) awarded to the Louisiana Department of Labor (LDOL) to assist individuals affected by hurricanes Katrina and Rita. The audit covered grant expenditures and performance data from September 1, 2005, through March 31, 2006.

Traditionally, disaster grants provide a variety of services to eligible individuals, including the temporary employment of individuals to help provide humanitarian assistance and to work on projects that perform cleaning, repair and renovation of facilities and lands located in the disaster area. The grant awarded to Louisiana also provided eligible individuals training opportunities and supportive services. The grant period covered September 1, 2005, through August 31, 2006.

The objectives of our audit were to answer the following questions:

- Were NEG expenditures allowable, reasonable, allocable, and reported accurately?
- Were the NEG activities and outcomes reported accurately?

Results

On August 29, 2005, Hurricane Katrina made landfall along the Gulf Coast of the United States. Hurricane Katrina was one of the deadliest and costliest natural disasters in U. S. history. Despite the extreme conditions in which the LDOL was operating and the overwhelming need to provide immediate assistance to victims of the hurricane, we found that, with minor exceptions, LDOL spent its NEG funds in accordance with Federal requirements, and reported NEG activities and outcomes accurately.

Overall, tested grant expenditures were allowable, reasonable, properly allocated and accurately reported. However, we noted a few exceptions at the Jefferson Parish Workforce Connection (JPWC) Local Workforce Investment Area. These exceptions involved employee time distribution, discrepancies in participants' hours worked at five sub-contractor locations, reporting expenditures on the cash basis rather than the required accrual basis of accounting, and a lack of specific controls to review and verify subcontractor invoices prior to making payment, including verification of participant timesheets and pay amounts.

NEG activities and outcomes were accurately reported with one exception. We found LDOL reported 7 out of 120 sampled participants as temporarily employed even though they never worked, thus overstating LDOL's reported performance in the area of "Employed in Temporary Disaster Relief Assistance."

Auditee Response

In response to the draft report, the Assistant Secretary of LDOL agreed with the report's findings and recommendations.

OIG Conclusion

The report's recommendations will be resolved during DOL's formal audit resolution process.

Recommendations

We recommend the Assistant Secretary for Employment and Training direct LDOL to provide technical assistance and oversight necessary to ensure that JPWC:

- Adheres to a cost allocation plan for employee time distribution.
- Reviews and verify subcontractor invoices before making payments.
- Reports expenditures based on the accrual accounting method.
- Develops specific written procedures for reviewing invoices, including participants' time sheets and pay amounts.

We also recommend that the Assistant Secretary for Employment and Training direct LDOL to ensure that participant employment activity is reported accurately.

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
200 Constitution Avenue, N.W.
Washington, D.C. 20210

We conducted a performance audit of the National Emergency Grant (NEG), grant number EM-15067-05-60, awarded to the Louisiana Department of Labor (LDOL). ETA awarded the \$62.1 million grant to help LDOL serve victims of hurricanes Katrina and Rita. The funds provided short-term disaster relief employment; adjustment assistance that included core, intensive and training services; and supportive services as determined necessary.

Our audit covered the period September 1, 2005, through March 31, 2006. Our audit objectives were to answer the following questions:

- Were NEG expenditures allowable, reasonable, allocable, and reported accurately?
- Were the NEG activities and outcomes reported accurately?

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

Objective 1: Were NEG Expenditures Allowable, Reasonable, Allocable, and Reported Accurately?

Results and Findings

With few exceptions, tested NEG expenditures were allowable, reasonable, allocable, and reported accurately. Our review of major internal control systems at the Grantee and three Local Workforce Investment Areas (LWIAs) did not disclose any material weaknesses in operating the NEG program. Overall, LDOL and the LWIAs we visited had adequate policies and procedures in place that provided reasonable assurance that NEG funds were used appropriately. However, we found a few exceptions at the LWIA level.

A. Allocation of Salary Costs

At the Jefferson Parish Workforce Connection (JPWC), we found staff timesheets that were not signed by the employee and/or supervisor, and were not dated. We tested 91 financial transactions at JPWC, 35 of which were administrative staff salaries transactions involving 13 employees. The 13 employees worked on different programs and their salaries were allocated among those programs. We examined JPWC's time distribution method and activity reports to test the allowability and reasonableness of staff salaries and fringe benefits charged to the NEG program.

We examined 33 timesheets¹ and found that 3 timesheets were completed properly. For the remaining 30 timesheets, we found the following:

- four timesheets were not signed by the employee or supervisor;
- six timesheets were not certified by the supervisor until 9 months to a year after the end of the pay period;
- five timesheets had the employee and supervisor signatures, but the supervisor did not date the timesheets;
- six timesheets had employee and supervisor signatures but neither dated the timesheets; and
- nine timesheets were not signed or dated by the employee but were signed although not dated by the supervisor.

We contacted four JPWC employees to validate the time charged to the various programs on which they worked. One individual stated that actual work time was accurately recorded for each program. Another individual said that information on the timesheet was not what she submitted. The other two employees indicated they had been instructed to report the same pre-determined amount of time for each project,

¹ Two transactions were fringe benefits costs which were associated with the salaries of another transaction.

regardless of the actual number of hours they actually worked. An ETA monitoring report, dated April 18, 2006,

noted that JPWC had been allocating personnel expenditures based on the percentage of funding from each program.

Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local and Indian Tribe Governments," establishes principles and standards for determining costs for Federal awards carried out through grants. Attachment A, Part C.3.a of the Circular states that:

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objectives in accordance with the relative benefits received.

OMB Circular A-87, Attachment B, Part 11.h.(4) states:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5). . . .

Subsection (5) provides that personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity, for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.

JPWC officials stated that timesheets were not reviewed for accuracy during our audit period due to the limited staff available after the hurricane and the high demands on the staff's time.

B. Participant Work Hours Discrepancies

JPWC subcontractors overpaid participants in some cases. We found five subcontractor program participants whose pay was based on the incorrect number of hours reportedly worked. These participants were paid for more hours than they actually worked. The additional incorrect time for the 5 participants ranged from 4 to 24

hours. These pay discrepancies were due to clerical errors that originated at the subcontractor level and remained undiscovered until our verification of participants' time and pay. JPWC reimbursed the subcontractors associated with these pay discrepancies based on the incorrect number of hours worked by participants.

C. Expenditures Not Reported Using Accrual Basis of Accounting

WIA regulations at 29 CFR 667.300(c) require expenditures and program income be reported on the accrual basis of accounting.

The Jefferson Parish Accounting Department (JPAD) provided accounting functions for JPWC. JPAD did not include accrued expenditures when reporting NEG financial results. JPAD reported NEG expenditures each month using data from the Parish's accounting system, which tracked expenditure on the cash basis of accounting.

D. Lack of Written Procedures for Reviewing and Approving Invoices

During our testing of internal controls, we noted that JPWC did not have written policies and procedures for reviewing and approving invoices, including support for participant hours worked and paid. Problems associated with the lack of procedures were evident in our testing of expenditures discussed previously.

JPWC officials acknowledged not having written procedures at the time of our fieldwork and stated that this was due to the crisis situation after the hurricane. JPWC also stated the following:

During the time period of the audit, there were 8 locations where employees were housed plus some worked from their homes. It was an impossible situation to have normal control over activities such as this.

Subsequent to our testing of internal controls, JPWC developed written procedures, but these procedures did not address the review of participants' timesheets and pay amounts. We believe such a review is necessary to limit the risk of overpayments.

Auditee Response

In response to the draft report, the Assistant Secretary of the Louisiana Department of Labor agreed with the report's findings and recommendations. He stated the following:

In summary, intensive technical assistance and program guidance have been provided to Jefferson Parish Workforce Connection (JPWC) on each of the recommendations to the Assistant Secretary for Employment and

Training. JPWC has established policies and procedures with specific checks and balances to ensure adherence to proper distribution of staff

costs, processing and payment of invoices, and participant time and attendance sheets. JPWC has also assured LDOL that the accounting

department for Jefferson Parish Government has made the necessary adjustment to report all expenditures on an accrual basis.

OIG Conclusion

The report's recommendations will be resolved during DOL's formal audit resolution process.

Recommendations

We recommend the Assistant Secretary for Employment and Training direct LDOL to provide technical assistance and oversight necessary to ensure that JPWC and JPAD:

- Adhere to a cost allocation plan for employee time distribution.
- Review and verify subcontractor invoices before making payments.
- Report expenditures based on the accrual accounting method.
- Develop specific written procedures for reviewing participant invoices, including participants' time sheets and pay amounts.

Objective 2: Were the NEG activities and outcomes reported accurately?

Results and Findings

NEG activities and outcomes were reported accurately with one exception. LDOL reported 7 of 120 sampled participants as employed in temporary disaster relief assistance even though they never reported for work.

NEG recipients are required to report cumulative financial and performance information using the ETA 9104 Quarterly Report Form (Quarterly Report). LDOL requires LWIAs to enter participant data into the State's participant information system called Louisiana Virtual One Stop or LAVOS. The State retrieves participants' information from LAVOS to prepare its quarterly reports. We examined LDOL's Quarterly Report for the quarter ended March 31, 2006.

We found that LDOL reported 7 of 120 participants as employed in temporary disaster relief assistance even though they never reported for work. Participants were reported as employed for up to 6 months.

According to LWIA officials, a few participants would enroll under NEG but not report to the worksites for various reasons. LWIA officials explained that the State encouraged them to keep participants in the program even though they did not report to the worksite because those participants may need other NEG assistance at a later date.

By reporting participants as placed into temporary employment even though they never reported to their assigned worksite, LDOL overstated its performance results in the "Employed in Temporary Disaster Relief Assistance." category.

Auditee Response

In response to the draft report, the Assistant Secretary of the Louisiana Department of Labor agreed with the report's findings and recommendations.

OIG Conclusion

The report's recommendations will be resolved during DOL's formal audit resolution process.

Recommendation

We recommend the Assistant Secretary for Employment and Training direct LDOL to ensure that participant employment activity is reported accurately.

Elliot P. Lewis

Elliot P. Lewis
August 28, 2007

PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Appendices

PAGE HAS BEEN INTENTIONALLY LEFT BLANK

APPENDIX A

BACKGROUND

NEG Program

The National Emergency Grants (NEG) were established by Title I, Subtitle D, Section 173 of the Workforce Investment Act (WIA).² The NEGs are discretionary grants awarded by the Secretary of Labor to provide time-limited funding assistance in response to significant dislocation events. Eligible dislocation events include natural disasters as defined by the Robert T. Stafford Disaster Relief and Emergency Assistance Act. Eligible entities may apply for natural disaster assistance once the Federal Emergency Management Agency (FEMA) has declared an area eligible for disaster-related public assistance.

ETA has provided guidance to NEG applicants through publication of the NEG application procedures in Federal Register, Vol. 69, No. 81, dated April 27, 2004, and also through information available on their internet website. NEG applications for disaster assistance are made by submitting Standard Form 424 – Application for Federal Assistance. The application can be considered an emergency application if it is submitted within 15 days of the FEMA public assistance declaration. The initial application is expected to address the temporary job creation component. Other services may be provided as needed, but a fully documented plan or a separate modification request to use NEG funds to provide the other services is required. The submission of the fully documented plan should occur at a point in time when an adequate assessment of the various needs has been made. This occurs generally no more than 4 to 6 months after the initial grant award. Most grants are incrementally, with a maximum level of funding approved by the Secretary of Labor, but typically a lesser amount is awarded initially. The balance of funds are only awarded after a need for those funds has been supported by enrollments and expenditures.

Disaster relief grant recipients may provide some or all of the following services to eligible individuals:

- adjustment assistance that includes core, intensive and training services as authorized at WIA sections 134(d) and 173;
- supportive services as determined necessary to help workers who require such assistance to participate in program activities; and
- short-term disaster relief employment.

² The WIA was passed by Congress in 1998. It was passed to reform federal job training programs and create a comprehensive investment system.

Hurricanes Katrina and Rita

On August 29, 2005, Hurricane Katrina came ashore along the Louisiana, Mississippi and Alabama coasts, causing estimated losses of more than \$100 billion. President Bush declared a major disaster for each of these states under the authority of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C., Sections 5121-5206.

The Louisiana Department of Labor (LDOL) submitted an Application for Federal Assistance related to Hurricane Katrina on September 1, 2005, requesting \$62.1million in Federal assistance. In LDOL's application, officials estimated 10,000 participants would be trained, retrained and placed in the workforce at an average cost of \$6,210 per participant.

On September 23, 2005, Hurricane Rita came ashore along the border of Texas and Louisiana, causing estimated losses of more than \$10 billion. President Bush declared a major disaster for each of these two states.

The Flexibility for Displaced Workers Act was amended by Public Law 109-148, Section 5012, dated December 30, 2005. The Act was amended by striking "Hurricane Katrina" in each place it appears and inserting "hurricanes in the Gulf of Mexico in calendar year 2005". This includes individuals affected by Hurricane Rita.

APPENDIX B

OBJECTIVES, SCOPE, METHODOLOGY AND CRITERIA

Objectives

The objectives of our audit were to answer the following questions:

1. Were the NEG expenditures allowable, reasonable, allocable, and reported accurately?
2. Were the NEG activities and outcomes reported accurately?

Scope

We audited the \$62.1 million NEG awarded to LDOL to serve individuals affected by Gulf of Mexico hurricanes in Calendar Year 2005. We tested selected expenditures and performance data reported for the period of September 1, 2005 through March 31, 2006.

Our audit was conducted in accordance with Government Auditing Standards for performance audits issued by the Comptroller General of the United States, and included such tests as we considered necessary to satisfy the audit objectives. A performance audit requires obtaining 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 audit, we considered whether internal controls significant to the audit were properly designed and placed in operation. Fieldwork was conducted from March 28, 2006, through August 28, 2007.

Methodology

To achieve our objectives, we obtained an understanding of relevant internal controls through inquiries with appropriate personnel and inspection of relevant documents, policies and procedures at the State and local level. Work was performed at the LDOL and three Local Workforce Investment Areas (LWIAs):

- Jefferson Parish Workforce Connection (LWIA Number 11);
- Second Planning District Consortium (LWIA Number 20); and
- City of Shreveport (LWIA Number 71).

The LWIAs we visited were selected based on their location (inside and outside the hurricane affected area), the amount of grant expenditures reported during our audit period and the types of work activities (cleanup, humanitarian, etc.). We used statistical

sampling to select financial transactions, participant eligibility and performance data for testing at each site.

ETA provided us with two ETA 9104 Quarterly Reports (December 2005, and March 31, 2006). The Quarterly Reports included financial and performance data from the inception of the grant up to and including the current quarter.

We tested \$50,015 (13 percent) of the grantee's "State Level" expenditures from September 2005 through March 2006. For the same period, we tested \$1.2 million of expenditures at the "Operator Level". Expenditures at LWIAs accounted for 5.1 percent of total expenditures (\$23,554,077) reported on the Form 9104 for the operator level. We selected financial transactions as follows:

Location	Number of Financial Transactions	Total Dollars Tested	Total Dollars Reported	Tested Dollars Percentage
(Jefferson Parish Workforce Connection) - LWIA 11	91	\$229,334	\$528,954	43.36
(Second Planning District Consortium) - LWIA 20	43	\$912,021	\$3,350,933	27.00
(City of Shreveport) - LWIA 71	68	\$ 64,180	\$1,107,634	5.79
Total	202	\$1,205,535	\$4,987,521	24.17

We randomly selected a total of 120 participants (40 participants at each of the three local areas we visited) and tested each participant's eligibility for the NEG program and the accuracy of reported performance activities. We tested participant eligibility by comparing documentation acquired by the local officials for each participant selected to the NEG eligibility requirements as amended by the Flexibility for Displaced Workers Act. We tested the accuracy and completeness of the reported performance data by requesting lists of participants who were said to support each performance factor on the Quarterly Report.

We selected and visited two worksites at each LWIA. We requested a list of all worksites active during our visit and all active participants assigned to the worksites. Using the list, we selected worksites with the largest number of active participants. We interviewed all present participants and documented reasons for any missing participants. Subsequently, we compared the names of missing participants to timesheets and participants wage reimbursement requests to detect improper payments.

We relied on computer-generated data when performing our audit tests, and in accordance with audit guidelines, we tested the validity and reliability of the data. Specific audit tests were performed in the areas of financial management and participant reporting requirements.

Criteria

The principal criteria that governed the work performed were as follows:

- WIA Section 173, National Emergency Grants (NEG)
- WIA Section 195, General Program Requirements
- Public Law 109-72, Flexibility for Displaced Workers Act (provided special rules for NEG grants for Gulf of Mexico hurricanes in calendar year 2005)
- 20 Code of Federal Regulations (CFR), Part 671, Federal Regulations pertaining to NEG
- 29 CFR Part 97, Uniform Administrative Requirements for State/Local Governments and Indian Tribes
- Office of Management and Budget (OMB) Circular A-87, Cost Principles for State/Local Governments and Indian Tribes
- Training and Employment Guidance Letter (TEGL) NO. 5-05, Waiver Flexibility for Hurricane Katrina Recovery
- TEGL NO. 16-03, NEG Policy Guidance
- TEGL NO. 16-03, Change No. 3, NEG Policy Guidance. Use of NEG Funds to Support Disaster Relief Employment and Training Assistance for Individuals Impacted by Hurricane Katrina
- TEGL NO. 17-05, Common Measures Policy for the Employment and Training Administration's (ETA) Performance Accountability System and Related Performance Issues
- NEG Application Procedures
- Quarterly Progress Report Definitions of Performance Factors

PAGE HAS BEEN INTENTIONALLY LEFT BLANK

APPENDIX C

Acronyms and Abbreviations

CFR	Code of Federal Regulations
ETA	Employment and Training Administration
FEMA	Federal Emergency Management Agency
JPAD	Jefferson Parish Accounting Department
LAVOS	Louisiana Virtual One Stop
LDOL	Louisiana Department of Labor
JPWC	Jefferson Parish Workforce Connection
LWIA	Local Workforce Investment Area
NEG	National Emergency Grant
OMB	Office of Management and Budget
SOF	Statement of Facts

PAGE HAS BEEN INTENTIONALLY LEFT BLANK

APPENDIX D

LOUISIANA DEPARTMENT OF LABOR'S RESPONSE TO DRAFT REPORT



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

Bennett J. Soulier
Assistant Secretary

Office of Workforce
Development

September 19, 2007

Mr. Dwight Gates
Acting Audit Director
Office of Inspector General
61 Forsyth Street S.W.
Atlanta, Georgia 30303

Dear Mr. Gates,

The Louisiana Department of Labor has reviewed the attached draft report of the Louisiana National Emergency Grant and concurs with the findings and recommendations noted in the report.

Intensive technical assistance and program guidance have been provided to Jefferson Parish Workforce Connection (JPWC) on each of the recommendations to the Assistant Secretary for Employment and Training. JPWC has established policies and procedures with specific checks and balances to ensure adherence to proper distribution of staff costs, processing and payment of invoices, and participant time and attendance sheets. JPWC has also assured LDOL that the accounting department for Jefferson Parish Government has made the necessary adjustment to report all expenditures on an accrual basis.

A monitoring / audit review will ensue to make certain that this corrective action adequately resolves each of the findings.

Should you need additional information or have any questions, you may contact me at 225-342-7692.

Sincerely,



Bennett Soulier

BS:has