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Office of Inspector General—Office of Audit

**EMPLOYMENT AND TRAINING
ADMINISTRATION**



CONSORTIUM FOR WORKER EDUCATION EARMARK GRANT

Date Issued: February 29, 2008
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**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY . . .

Highlights of Report Number 02-08-203-03-390, *Consortium for Worker Education Earmark Grant*, to the Assistant Secretary for Employment and Training

WHY READ THE REPORT

The Employment and Training Administration (ETA) awarded a \$32.5 million earmark grant to the Consortium for Worker Education (CWE) to establish the Emergency Employment Clearinghouse (EEC) and provide employment services to participants and employers impacted by the events of September 11, 2001. Services to be provided included individual assessments, training, job placement, and a wage subsidy incentive program to help employers hire, retain, and/or rehire workers.

For the period April 1, 2002, through December 31, 2004, CWE reported expenditures of \$32.4 million and participant enrollments of 24,195.

WHY OIG CONDUCTED THE AUDIT

The audit objectives were to determine:

1. Were reported costs allowable, allocable, and reasonable in accordance with Federal requirements?
2. Did CWE establish the EEC and provide employment services to participants and employers impacted by the events of September 11, 2001?
3. What were the outcomes for participants?

READ THE FULL REPORT

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

<http://www.oig.dol.gov/public/reports/oa/2008/02-08-203-03-390.pdf>

FEBRUARY 2008

CONSORTIUM FOR WORKER EDUCATION EARMARK GRANT

WHAT OIG FOUND

CWE established the EEC program and provided services to workers and employers impacted by the events of September 11, 2001. However:

- CWE charged costs to the grant that were not allowable and allocable, and did not maintain adequate documentation to demonstrate participant eligibility and services provided. As a result, we question costs of \$11.3 million.
- CWE did not demonstrate that a statistical sample of non-wage subsidy participants received employment services. The value of services claimed for non-wage subsidy participants that may be subject to recovery was \$13.3 million.
- CWE was not able to provide documentation to support reported participant outcomes for 4 of 5 performance outcome measures.
- ETA grant monitors identified financial and performance issues similar to those noted in our report. While ETA monitors performed some follow-up, the issues were not adequately corrected by CWE.

WHAT OIG RECOMMENDED

The OIG recommended the Assistant Secretary for Employment and Training: recover questioned costs of \$11.3 million; require CWE to document eligibility and services for non-wage subsidy participants; and review and improve ETA's monitoring process.

In its response to the draft report, CWE disagreed with the report's findings. CWE cited difficulties in locating files from closed centers and disagreements about accounting methodologies.

ETA officials stated that they would provide comments after receiving the final report.

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Executive Summary

The Office of Inspector General (OIG) conducted a performance audit of the \$32.5 million earmark¹ grant awarded to Consortium for Worker Education (CWE) in New York, New York. Our audit covered the period April 1, 2002, through December 31, 2004.

The purpose of the earmark grant was to establish the Emergency Employment Clearinghouse (EEC) and provide employment services to participants and employers impacted by the events of September 11, 2001. Services to be provided included individual assessments, training, job placement, and a wage subsidy incentive program to help employers hire, retain, and/or rehire workers.

The audit objectives were to determine the following:

1. Were reported costs allowable, allocable, and reasonable in accordance with Federal requirements?
2. Did CWE establish the EEC and provide employment services to participants and employers impacted by the events of September 11, 2001?
3. What were the outcomes for participants?

Results

CWE reported expenditures of \$32,428,797 for operating and administering the EEC grant on its Financial Status Report (FSR). Generally, costs charged to the grant were not allowable and allocable, nor was adequate documentation maintained to demonstrate participant eligibility and services provided. As a result, we question costs of \$11,264,554. Further, CWE was not able to provide documentation to support reported participant outcomes; therefore, the reported data for four of five outcome measures were unauditible. Additionally, Employment and Training Administration (ETA) grant monitors identified some financial and performance issues similar to those noted in this report, such as excessive wage subsidies. While ETA monitors performed some follow-up, the issues were not adequately corrected by CWE.

1. Applicable Federal requirements were not followed when charging costs to the grant. This occurred because adequate controls were not maintained to ensure that actual costs incurred reconciled to those reported on its FSR. Further, systems were not maintained to ensure that reported costs were adequately documented, allocated based on benefits received, and complied with the terms of the grant. As a result, CWE reported unallowable costs of \$10,686,634 consisting of unsupported or excessive wage subsidy costs of \$5,359,333;

¹ An earmark grant is awarded with funds set aside from an appropriation for a specific purpose.

unsupported FSR costs of \$2,468,540; unallocable Instructors' Salaries of \$2,175,923; and unsupported and unallocable Other Than Personnel Services (OTPS) costs of \$682,838.

2. CWE established the EEC program to provide services to workers and employers impacted by the events of September 11, 2001. The services were provided at 27 centers which were responsible for training, placement, wage subsidy, retention, and referrals to other programs.

The grant required CWE to register 20,600 participants who were impacted by the events of September 11, 2001, into its programs. CWE reported it registered 24,195 enrolled participants, but only documented 20,513 registered participants of which 366 were ineligible and 115 were missing support documentation. As a result, we question related costs of \$577,920. Furthermore, CWE officials did not demonstrate that a statistical sample of non-wage subsidy participants received employment services. The value of services claimed for non-wage subsidy participants that may be subject to recovery was \$13,325,091.

3. CWE reported that it achieved the performance goals established in the EEC grant. However, CWE did not meet its goal for wage subsidies nor provide documentation verifying other reported outcomes. CWE's performance goal for wage subsidies was 3,331 participants and CWE reported that 3,323 participants received wage subsidies. However, CWE records only documented 2,820 wage subsidy participants. For training, placements, retention, and referrals to other programs, CWE did not maintain detailed outcome data and was unable to provide supporting documentation to verify reported participant outcomes. As a result, four of five reported outcome measures were unauditible.

Auditee Response

In its response to the draft report, CWE stated that it disagreed with the report's findings. CWE cited issues related to locating files from closed centers and disagreements about accounting methodologies. CWE stated, "We are confident that an overall review of documents both reviewed and now-available will resolve any of the issues addressed in the Draft Report."

CWE's response to the draft report is included in its entirety in Appendix D.

ETA Response

ETA stated that its policy is not to comment on draft reports resulting from audits of its grantees. ETA stated that it will respond to the final report.

OIG Conclusion

CWE's response to the draft report provided no additional documentation; therefore, our report findings remain unchanged.

The Code of Federal Regulations (CFR), Part 29, Subpart 95, "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," Section 95.53(e) states that OIG has the right of timely and unrestricted access to any books, documents, papers, or other records of recipients that are pertinent to the awards, in order to conduct audits. CWE was given several opportunities to provide additional documentation both during and subsequent to fieldwork. CWE was notified that the OIG would accept and evaluate any documentation provided prior to the draft report response deadline. CWE promised to deliver certain documents by December 31, 2007; however, it has not provided any documents since December 5, 2007. CWE also claimed that it would provide additional documentation along with its response to the draft report, but did not do so.

Recommendations

We recommend the Assistant Secretary for Employment and Training:

- Recover questioned costs of \$11,264,554, consisting of unallowable costs of \$10,686,634, and ineligible participants and participants with missing documentation of \$577,920.
- Improve ETA's monitoring to cover financial areas contained within this report.
- Review ETA's monitoring process to ensure ETA verifies that grantees have implemented effective corrective actions.
- Require CWE to document the eligibility and services provided to the unsampled 17,373 non-wage subsidy participants. If during the resolution phase, CWE cannot substantiate to the Grant Officer the eligibility and services provided to such individuals, we recommend the Grant Officer recover \$767 for each undocumented individual, a total potential recovery of \$13,325,091.

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U.S. Department of Labor

Office of Inspector General
Washington, DC 20210



Assistant Inspector General's Report

February 29, 2008

Mr. Brent Orrell
Deputy Assistant Secretary
for Employment and Training
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

The OIG conducted a performance audit of CWE's \$32.5 million earmark grant number AF-12214-02-60 awarded for the period April 1, 2002, through December 31, 2004. CWE was established in 1985 as a not-for-profit agency that provides a wide array of employment, training, and education services to New York City workers.

The purpose of the earmark grant was to establish the EEC and provide employment services to participants and employers impacted by the events of September 11, 2001. Services to be provided included individual assessments, training, job placement, and a wage subsidy incentive program to help employers hire, retain, and/or rehire workers.

The audit objectives were to determine the following:

1. Were reported costs allowable, allocable, and reasonable in accordance with Federal requirements?
2. Did CWE establish the EEC and provide employment services to participants and employers impacted by the events of September 11, 2001?
3. What were the outcomes for participants?

We conducted our audit in accordance with Generally Accepted Government Auditing Standards for performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our objectives, scope, methodology, and criteria are detailed in Appendix B.

Objective 1 – Were Reported Costs Allowable, Allocable, and Reasonable in Accordance with Federal Requirements?

Results and Findings – Reported Costs of \$10,686,634 Were Not Allowable and Allocable in Accordance with Federal Requirements.

CWE reported expenditures of \$32,428,797 for operating and administering the EEC grant. However, CWE did not comply with applicable Federal requirements when charging costs to the grant. This occurred because adequate controls were not maintained to assure compliance with Federal requirements and terms of the grant. Additionally, ETA grant monitors identified some financial and performance issues similar to those noted in this report, such as excessive wage subsidies. While ETA monitors performed some follow-up, the issues were not adequately corrected by CWE. As a result, CWE reported unallowable costs of \$10,686,634 consisting of unsupported or excessive wage subsidy costs of \$5,359,333; unsupported FSR costs of \$2,468,540; unallocable Instructors' Salaries of \$2,175,923; and unsupported and unallocable OTPS costs of \$682,838.

Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Non-Profit Organizations," Attachment A, Section A.2, states that to be allowable under an award, costs must

... Be reasonable for the performance of the award and be allocable thereto under these principles ... Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items ... Be adequately documented.

Further, section A.4.a, states:

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.

A. Unsupported or Excessive Wage Subsidy Costs of \$5,359,333

CWE made payments totaling \$13 million to 216 employers for salary reimbursement of current employees and rehires. These wage subsidies were designed to sustain businesses impacted by the events of September 11, 2001. The wage subsidies were disbursed as follows: \$5.1 million to 9 healthcare and social assistance employers (Healthcare), \$2.3 million to 66 manufacturing employers, and \$5.6 million to 141 employers in various other industries.

The grant required CWE to obtain supporting documentation from participating employers explaining how they were impacted by September 11, 2001, events. However, Healthcare employers received subsidies of \$5,122,654 without documenting that they were impacted by the September 11, 2001, events. In addition, CWE paid

wage subsidies totaling \$236,679 that were unsupported or exceeded the terms of the grant.

Unsupported Healthcare Employer Costs of \$5,122,654

Under the Guidelines for Employer Assessment for Wage Subsidy, the grant agreement required "... an EEC Wage Subsidy application form will be completed and back-up documentation obtained." This documentation was used to "... determine if the business is eligible for Wage Subsidy support, relative to the impact on the business from the 9/11 events." Special Clause 11 further states: "Except as specifically provided, DOL/ETA acceptance of a proposal and an award of federal funds to sponsor any program(s) **does not** provide a waiver of any grant requirements and/or procedures."

Wage subsidies were paid to Healthcare employers to reimburse them for wages paid to employees in support service positions such as maintenance workers, clerical staff, accounting clerks, computer support staff, and administrative managers. However, CWE did not demonstrate that the Healthcare employers were impacted by the September 11, 2001, events. As a result, wage subsidies of \$5,122,654 are questioned.

CWE officials explained that the Healthcare employers did not go through the grant-required application and qualification process; rather, the employers were awarded wage subsidies based on discussions with representatives of the hospital union (Local 1199). However, documentation of discussions with union representatives was not provided. Further, CWE could not provide any other documentation demonstrating the impacts, such as risk of layoffs, job openings not being filled or business decline, that the Healthcare employers experienced as a result of the events of September 11, 2001.

Unsupported and Excessive Wage Subsidy Costs of \$236,679

CWE paid some wage subsidies that did not comply with Federal requirements or the terms of the grant. This occurred because CWE did not maintain effective controls to ensure compliance with grant terms. As a result, we question wage subsidy costs of \$236,679 for the following reasons:

- \$225,478 was not supported with participant payroll records. The grant agreement required employers to submit payroll records as backup documentation for wage subsidy reimbursement.
- \$11,201 exceeded negotiated grant terms. The grant agreement capped wage subsidy reimbursement at \$25.00 per hour, per employee. Negotiated contracts between CWE and four individual employers established pay rates and hours worked that exceeded allowable amounts for specific positions.

B. Unsupported FSR Costs of \$2,468,540

CWE claimed costs for Indirect Costs (\$1,039,691); Other Expenses, Supplies, and Wage Subsidies (\$1,013,182); and Pre-Award Costs (\$415,667) without maintaining adequate supporting documentation. As a result, we question unsupported costs of \$2,468,540.

29 CFR 95.21(b)(1) requires grant recipients to maintain accurate, current, and complete disclosure of the financial results of each Federally-sponsored project or program. Further, OMB Circular A-122, Attachment A, Section A.2.g requires that to be allowable under an award, costs must "... Be adequately documented."

Indirect Costs of \$1,039,691

OMB Circular A-122, Attachment A, Section B (1) states:

Direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization. However, a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost. . . . (Underscoring added.)

CWE reported Indirect Costs based on the grant budget.² CWE did not accumulate actual costs in an indirect cost pool and allocate those costs based on benefits received, as required by OMB Circular A-122. Further, CWE directly charged costs to the grant that were also included in the proposed indirect cost pool. CWE did not have a methodology for accumulating indirect costs or accounting for indirect time. As a result, the entire amount of indirect costs of \$1,039,691 is questioned.

CWE did not maintain a system to account for indirect costs in its general ledger and timesheets. Officials were not able to identify any accounting code for indirect costs. CWE staff charged only direct time on their timesheets because the timesheets were pre-printed with grants and programs, but did not have an area to designate indirect time. Our review of sampled executive staff timesheets found that their time was charged directly to various grants and programs.

Judgmental samples of \$128,783 paid to executive employees whose salaries were included in the indirect cost pool revealed that costs were reported both on a direct and indirect basis. The Indirect Cost Proposal submitted to the Department of Labor's (DOL) Office of Cost Determination designated job titles of these CWE executive and administrative staff within the indirect cost pool. In the general ledger salary accounts, executive and administrative staff were listed by name and percentage of salary, and charged directly to the EEC grant. For example, the Executive Assistant to the

² Modification Number 2 effective June 10, 2004, set the provisional rate at 15 percent of direct salaries and fringe benefits, or \$1,039,691.

Chairman and the Director of Labor Relations were listed at 100 percent time charged in the indirect cost pool. However, in addition to being considered within the indirect cost pool, the Executive Assistant to the Chairman was charged 80 percent, and the Director of Labor Relations was charged 50 percent directly to the EEC grant. The balance of their time was charged directly to other grants.

Other Expenses, Supplies, and Wage Subsidy Costs of \$1,013,182

CWE was unable to provide adequate documentation in its general ledger to support individual line items reported on the Grantee's Detailed Statement of Costs, which supports the final FSR dated May 10, 2005. As a result, specific FSR line items totaling \$1,013,182 are questioned.³ Review of the reported amounts revealed CWE reported the identical amounts requested in its grant budget.

Other Expenses	\$ 703,260
Supplies	229,371
Wage Subsidies	80,551
	<u>\$1,013,182</u>

On four occasions, CWE officials attempted to reconcile the general ledger to the amounts reported; however, crosswalks provided were irreconcilable and varied each time they were produced. According to CWE officials, this was caused by the lack of a full-time comptroller as well as the loss of its Chief Finance Officer. Further, CWE officials stated the accounting software program used was inadequate, and that the general ledger did not reflect actual financial results of operations. Subsequent to the grant period, a full-time comptroller was hired, and the CFO and the accounting software were replaced.

In response to this issue, CWE provided a revised version of the general ledger at the Exit Conference. We requested journal entries to support some of the general ledger revisions. However, the support provided was still based on grant estimates and did not reflect the actual financial results of operations. Therefore, the additional documentation was not adequate, and was not accepted for audit purposes.

Pre-Award Costs of \$415,667

The grant authorized pre-award costs of \$415,667. CWE reported pre-award costs, but did not accumulate pre-award costs in its general ledger. In addition, CWE did not provide supporting documentation for claimed pre-award costs demonstrating these costs were incurred prior to the grant period and necessary for grant operations. Review of reported amounts indicated CWE reported the identical amount requested in

³ CWE overspent other line items by \$712,410, but did not claim the costs on the final FSR. Under the grant Special Clause 1, CWE had the flexibility to shift up to 20 percent of grant budget line items except wages, salaries and fringe benefits. CWE did not exercise the flexibility clause before the grant was closed. Therefore, any potential cost offsets would have to be discussed with the Grant Officer during audit resolution.

its grant budget. The CWE Budget Director stated that costs were not separately tracked. Therefore, it is possible that these costs were reported elsewhere. As a result, pre-award costs of \$415,667 were unsupported and are questioned.

C. Unallocable Instructors' Salary Costs of \$2,175,923

CWE allocated Instructors' Salaries without documentation to support that the charges were in accordance with benefits received by the grant. Although a portion of these costs may be allocable to the EEC grant, CWE did not provide documentation that would allow for a determination of the proportionate benefit received. As a result, we question Instructors' Salaries of \$2,175,923.

OMB Circular A-122, Attachment B, Paragraph 8.m, states:

... The distribution of salaries and wages to awards must be supported by personnel activity reports ... except when a substitute system has been approved in writing by the cognizant agency...
(a) The reports must reflect an after-the-fact determination of the actual activity of each employee ...

CWE officials stated Instructors' Salaries were allocated based on student composition, and all Instructors' Salaries allocated to the EEC grant were for classes exclusively for EEC participants. However, CWE did not provide the appropriate labor distributions, allocation worksheets or time cards to support the allocation of the amounts reported. Moreover, the class rosters showed that both EEC and non-EEC students attended classes. However, CWE charged 100 percent of the Instructors Salaries for the classes to the EEC grant. Instructors' Salaries were not allocated to the grant based on relative benefits received.

D. Unsupported and Unallocable OTPS Costs of \$682,838

CWE reported OTPS⁴ costs of \$10,715,869. Of this amount, we question \$682,838 for costs allocated to the grant without support for the proportionate benefits received. This occurred because CWE lacked adequate controls regarding record retrieval and allocation of grant costs.

- Supporting documentation of \$383,835 was not provided. Officials stated they were unable to locate documentation warehoused at an outside archiving company because invoices were not filed according to the archive inventory list or may have been misplaced.
- National Emergency Grant (NEG) expenditures of \$113,332 were allocated to the EEC grant. Invoices reviewed denoted the accounting code for "NEG" which indicated the charges should not have been allocated to the EEC grant.

⁴ OTPS was the combination of the Supportive Services, Supplies, Facilities and Communication, Equipment and Other line items.

- CWE expended \$185,671 for leasing computer equipment without providing sufficient documentation for the cost. CWE officials only provided the lease agreement, which did not detail the cost or applicability to the EEC grant.

Auditee Response

In its response to the draft report, CWE stated that it disagreed with the report's findings and provided comments on each of the following areas of questioned costs:

- **Healthcare Employer Wage Subsidy Costs:** CWE provided documentation on December 5, 2007, that it claimed substantiated that CWE pre-qualified and vetted the affected healthcare institutions for wage subsidy allocations.
- **Unsupported and Excessive Wage Subsidy Costs:** CWE claimed that backup payroll records and adjustments are demonstrably accurate and are in compliance with grant guidelines.
- **Indirect Costs:** CWE stated that it expects to complete the proposal for the final indirect cost rate application for 2002, 2003 and 2004, by March 1, 2008. CWE further stated that it expects the grant's final indirect rates to be in excess of the 15 percent indirect rate allowed by the grant.
- **Other Expenses, Supplies, and Wage Subsidies:** CWE claimed that the report issue was on how certain costs were allocated to line items and that the basis for allocation, a percentage of direct-charged staff, was consistent with the methodology used in previous grant and contracts with the State and City of New York.
- **Pre-Award Costs:** CWE disagreed with our finding that it could not identify the claimed pre-award costs in the general ledger. CWE stated, "Despite the issues with CWE's "crosswalk" general ledger, CWE's program costs spent during the pre-award timeframe were both appropriate and demonstrable."
- **Unallocable Instructors' Salary Costs:** According to CWE, in order to pay for 100 percent of the instructor's time, a minimum of 10 EEC students were necessary; additional students were allowed to attend classes that already met the minimum enrollment; instructor costs were not charged to any other grant; and other costs for additional students were charged to other sources of funds when available and appropriate.

CWE's response to the draft report is included in its entirety in Appendix D.

ETA Response

ETA stated that its policy is not to comment on the draft reports resulting from audits of its grantees. ETA stated that it will respond to the final report.

OIG Conclusion

CWE's response to the draft report provided no additional documentation; therefore, the report findings remain unchanged.

29 CFR 95.53(e) states that OIG has the right of timely and unrestricted access to any books, documents, papers, or other records of recipients that are pertinent to the awards, in order to conduct audits. CWE now claims to have other documentation available that would support its claims, but did not provide such documentation during our fieldwork, or as part of its response to the draft report.

Our conclusions related to CWE's comments on specific areas of questioned costs are presented below.

- **Healthcare Employer Wage Subsidy Costs:** The documents provided by CWE do not demonstrate that Healthcare employers completed the application and backup documents required by the grant to demonstrate their eligibility for wage subsidies. CWE provided documentation of business declines and potential layoffs for non-Healthcare employers. CWE did not provide such documentation for Healthcare employers. Instead, CWE provided a proposal to train dislocated workers for jobs in Healthcare, which was described as a growth industry with a shortage of qualified workers. For four of nine Healthcare employers, CWE provided documents which were dated subsequent to the date on which the wage subsidy contracts were signed, and did not support eligibility for wage subsidies. The documentation for Brooklyn Hospital was an accounts receivable confirmation pursuant to its annual financial audit for 2003. Documentation for Mount Sinai, Flushing and Jamaica Hospitals consisted of letters from those institutions thanking CWE for the wage subsidies.
- **Unsupported and Excessive Wage Subsidy Costs:** CWE provided no additional documentation, nor did CWE provide evidence of a grant waiver or modification of the requirement to cap wage subsidy reimbursement at \$25.00 per hour, per employee.
- **Indirect Costs:** CWE's response did not address our findings related to accounting for actual indirect costs and the need to develop controls to prevent duplicate charging of direct and indirect costs.
- **Other Expenses, Supplies, and Wage Subsidies:** CWE's response did not address our finding that CWE claimed costs on the FSR which were not supported in its general ledger.

- Pre-Award Costs: CWE's response did not provide documentation to support its assurances that pre-award costs were both appropriate and demonstrable. CWE has not demonstrated that the pre-award costs were accumulated in the general ledger and were not duplicative of other reported grant costs.
- Instructors' Salary Costs: CWE's response confirmed that it used grant funds improperly to subsidize the training of non-EEC students.
- OTPS Costs: CWE's response did not address this area of costs.

Recommendations

We recommend the Assistant Secretary for Employment and Training:

1. Recover questioned costs of \$10,686,634.
2. Improve ETA's monitoring to cover financial areas contained within this report.
3. Review ETA's monitoring process to ensure ETA verifies that grantees have implemented effective corrective actions.

Objective 2 – Did CWE Establish the EEC and Provide Employment Services to Participants Impacted by the Events of September 11, 2001?

Results and Findings – CWE Established the EEC, but Overstated Enrollments, Claimed Ineligible Participants, and Could Not Demonstrate That Non-Wage Subsidy Participants Received Employment Services – Questioned Costs of \$577,920.

CWE established the EEC program to provide services to workers and employers impacted by the events of September 11, 2001. Services were provided at 27 centers which were responsible for training, placement, wage subsidy, retention, and referrals to other programs.

CWE overstated the number of participants enrolled in the EEC program by 18 percent. The grant required CWE to enroll 20,600 participants who were impacted by the events of September 11, 2001. CWE reported it enrolled 24,195 participants. However, CWE provided documentation to support the enrollment of 20,513 participants, and, therefore, reported enrollments were overstated by 3,682.

Of the 20,513 documented enrollments, CWE claimed 366 ineligible participants and 115 participants with missing documentation. As a result, we question costs of \$577,920 for ineligible and undocumented participants. Furthermore, CWE officials did not demonstrate that a statistical sample of non-wage subsidy participants received employment services. The value of services claimed for non-wage subsidy participants that may be subject to recovery was \$13,325,091.

A. CWE Overstated Participant Enrollments

Under the provisions of 29 CFR 95.51(d)(1), grant recipients are required to report actual accomplishments of the goals and objectives established for the period. In the Final Quarterly Project Activity Report submitted with the final FSR, CWE reported that 24,195 participants were enrolled. However, CWE provided documentation that supported the enrollment of 20,513 participants. Analysis of detailed participant data from the 27 centers and 216 wage subsidy employers revealed duplicative enrollments, an unexplained difference between reported and detailed enrollments, and missing enrollment documentation from two centers. As a result, participant enrollments were overstated by 3,682 and costs of \$151,225 are questioned for the two centers with missing documentation.

Reported to ETA		24,195
Less:		
Duplicative Enrollments	2,492	
Unexplained Difference	934	
2 Centers Missing Documentation	<u>256</u>	<u>3,682</u>
Documented Enrollments		<u>20,513</u>

Duplicative Enrollments

An analysis of participant Social Security Numbers (SSNs) identified 2,492 duplicative enrollments. Participants were either (1) reported at more than one center and/or employer, or (2) reported more than once at the same center or employer. The duplications occurred because CWE did not consolidate participant data to identify and eliminate duplicate enrollments.

Unexplained Difference

Comparison between reported and documented enrollments revealed an unexplained difference of 934 participant enrollments. CWE did not provide documentation to support that the 934 reported enrollments represented eligible participants served at the centers and/or employers.

Two Centers Missing Documentation

CWE had no documentation for 256 participant enrollments attributed to two centers operated by CWE contractors. The contractors, International Association of Machinists Center for Administering Rehabilitation and Employment Services (IAM CARES) and Fort Greene Strategic Neighborhood Action Partnership (SNAP), were paid \$170,036 and \$50,266, respectively, representing a total of \$220,302. As costs of \$69,077 for IAM CARES were previously questioned as unsupported OTPS costs (finding 1.C.), total undocumented enrollments of \$151,225 are questioned.

B. CWE Claimed Ineligible Participants

CWE did not provide adequate documentation to support the eligibility of 366 program participants.

WIA Title I, Subtitle E, Section 188(a)(5), Prohibition on Discrimination Against Certain Non-citizens, requires that participation in programs shall be for individuals authorized to work in the United States. According to the Social Security Administration (SSA), without exception individuals must have a Social Security Number (SSN) in order to work in this country. Further, the grant states that to be eligible for the program, a participant was required to complete and sign a self-certification form attesting that they were impacted by the events of September 11, 2001.

CWE enrolled 357 participants without documentation that the individuals were authorized to work in the United States.

- 201 participants had invalid SSNs according to SSA's valid ranges of issued numbers; and
- 156 participants were enrolled without documentation of their SSNs.

In addition, CWE did not document whether nine sampled participants were impacted by September 11, 2001, events. These nine participants did not have the self-certification form required by the grant, and CWE did not otherwise document that the individuals were impacted by September 11, 2001, events.

CWE's average cost per program participant was \$3,174 for wage subsidy participants and \$767 for non-wage subsidy participants. We question \$338,490 of costs incurred for ineligible participants, as shown below:

24 Ineligible Wage Subsidy Participants X \$3,174 =	\$ 76,176
342 Ineligible Non-wage Subsidy Participants X \$767 =	<u>262,314</u>
Total Questioned Costs Related to Ineligible Participants	<u>\$338,490</u>

C. CWE Could Not Demonstrate That a Statistical Sample of Non-Wage Subsidy Participants Received Employment Services

29 CFR 95.53(b), "Retention and Access Requirements for Records," states:

Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report ...

For a judgmental sample of 82 non-wage subsidy participants, we conducted tests to determine eligibility, services provided, and outcomes. CWE was unable to provide documentation for 15 participants. In addition, 9 participants were found to be ineligible (refer to finding 2B).

Testing of the judgmental sample resulted in a 29 percent error rate; therefore, we selected a statistically generated random sample of 100 participants to determine if the errors were pervasive throughout CWE's universe of 17,555 documented non-wage subsidy enrollments. Despite multiple requests, CWE officials did not provide any of the 100 participant files requested. Further, in the Management Representation Letter, dated July 14, 2006, CWE's Executive Director affirmed that CWE had made available all participant records.

CWE accounted for participant services separately for wage subsidy and non-wage subsidy costs. The average cost for non-wage subsidy participants was \$767.⁵ Based on this average cost, we question \$88,205, consisting of \$11,505 due to lack of documentation for the 15 participants from the judgmental sample, and \$76,700 due to lack of documentation for the 100 participants from the statistical sample. Furthermore, as requested files were not provided for any of the 100 participants in the statistical sample, there is the potential for an additional recovery of \$767 for each undocumented

⁵ Adjustments were made to offset specific questioned costs in other findings. See attachment A.

non-wage subsidy participant in the universe, with a total potential recovery of \$13,325,091.⁶

Auditee Response

In its response to the draft report, CWE stated that it disagreed with the report's findings and provided the following comments:

- **Overstated Participant Enrollments:** CWE stated that it is preparing a full reconciliation with back-up documentation and will make it available upon request.
- **Two Centers Missing Documentation:** CWE stated that it has obtained the archived records of Fort Greene SNAP and IAM Cares, and can make those records available upon request.
- **Ineligible Participants – Work Authorization:** CWE stated, "... the EEC was not a WIA program and therefore not bound by the eligibility guidelines of document procurement as a verification measure. Therefore, verification of social security numbers was not a requirement for CWE to ascertain from prospective participants."
- **Ineligible Participants – September 11 Impact:** CWE stated that it and the EEC intake centers relied solely upon the veracity of self-attestation claims that these individuals were impacted by September 11, 2001.
- **Statistical Sample of Non-Wage Subsidy Participants:** CWE stated that it has located 95 of the 100 records in the statistical sample and can make them available for review.

CWE's response to the draft report is included in its entirety in Appendix D.

OIG Conclusion

CWE's response to the draft report provided no additional documentation; therefore, our report findings remain unchanged.

29 CFR 95.53(e) states that OIG has the right of timely and unrestricted access to any books, documents, papers, or other records of recipients that are pertinent to the awards, in order to conduct audits. CWE now claims to have other documentation available that would support its claims, but it did not provide such documentation during our fieldwork or as part of its response to the draft report.

⁶ Potential recovery is based on 17,373 non-wage subsidy participants, which is the universe of 17,555, less the 182 included in audit samples.

Our conclusions related to CWE’s specific comments on questioned participant eligibility and missing documentation are presented below.

- **Overstated Participant Enrollments:** CWE has not completed the reconciliation of reported participant enrollments, and therefore, has no documentation to address our finding.
- **Two Centers with Missing Documentation:** Although promised, CWE has not provided documentation of eligibility and services received for the participants at the two centers.
- **Ineligible Participants – Work Authorization:** CWE’s statement that the EEC was not a WIA program is incorrect. The grant was awarded to CWE under the authority of WIA. By signing the grant agreement, CWE certified full compliance with the grant-stated regulations, including “20 CFR 652 et al., Workforce Investment Act.”
- **Ineligible Participants – September 11 Impact:** As our finding states, we accepted self-attestation as support that participants had been impacted by the events of September 11, 2001. CWE’s response did not explain why the self-attestations were missing for the nine questioned participants.
- **Statistical Sample of Participants:** Although it promised to do so, CWE did not provide documentation of eligibility and services received for the 95 participants whose records it claims to have located.

Recommendations

We recommend the Assistant Secretary for Employment and Training:

4. Recover \$577,920 of questioned costs for ineligible and undocumented participants as follows:
 - a. \$151,225 for contractor costs paid to SNAP and IAM Cares;
 - b. \$338,490 for 366 participants without documentation of the authority to work and impact of September 11, 2001 events; and
 - c. \$88,205 for 115 sampled non-wage subsidy participants for whom CWE did not produce documentation.
5. Require CWE to document the eligibility and services provided to 17,373 unsampled non-wage subsidy participants (17,555 less 182 sampled). If during the resolution phase, CWE cannot substantiate to the Grant Officer the eligibility and services provided to such individuals, we recommend the Grant Officer recover \$767 for each undocumented individual, a total potential recovery of \$13,325,091.

Objective 3 – What Were the Outcomes for Participants?

Results and Findings – Four of Five Reported Outcome Measures Were Unauditable.

CWE reported that it achieved the following outcomes under its EEC grant:

<u>Outcome Measure</u>	<u>Grant Goals</u>	<u>Reported Results</u>
Training	5,701	5,701
Placements (including subsidies)	5,150	7,012
Wage subsidies	3,331	3,323
Retention	3,863	4,425
Referred to other programs	5,150	4,467

29 CFR 95.53(b) states:

Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report ...

CWE reported that it achieved the performance goals established in the EEC grant. However, CWE did not meet its goal for wage subsidies nor provide documentation verifying other reported outcomes. Specifically, CWE's performance goal for wage subsidies was 3,331 participants, and CWE reported that 3,323 participants received wage subsidies. However, CWE records could only document that 2,820 participants received wage subsidies. For all other outcomes reported, CWE did not maintain detailed outcome data for the participants and was unable to provide supporting documentation to support reported participant outcomes. As a result, CWE's reported participant outcome data were unauditable.

Regarding placement and retention outcomes, ETA monitors noted that CWE had difficulties obtaining access to New Hire Index and Unemployment Insurance wage records from New York State Department of Labor. In a monitoring report dated September 10, 2003, ETA recommended CWE:

... for the purpose of program assessment, management and reporting, the reviewer recommends the use of supplemental data (such as employee payroll records, pay stubs, etc.) in determining retention for wage subsidy participants. Since the retention rate is a key management indicator in assessing program performance, other valid data sources should be utilized until the wage records access issue is finally resolved.

Auditee Response

In its response to the draft report, CWE disagreed with the report's findings and claimed that it met or exceeded each milestone set forth in the grant.

CWE's response to the draft report is included in its entirety in Appendix D.

OIG Conclusion

CWE's response provided no additional documentation; therefore, our findings remain unchanged. CWE did not explain why it reported that 3,323 participants receiving wage subsidies, but only documented 2,820 wage subsidy participants in its records. CWE provided no documentation to support the outcomes claimed for training, placements, retention and referrals to other programs.

Recommendation

We are not making specific recommendations related to CWE's reported participant outcomes because the grant has expired.



Elliot P. Lewis

Exhibit

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EXHIBIT

**Consortium for Worker Education
Schedule of Claimed, Sampled and Questioned Costs
For the Period April 1, 2002, through December 31, 2004**

Budget Line Items/Description	Claimed Cost	Sampled Costs	Questioned Cost
Salaries	\$ 5,201,384	\$ 5,117,922	-
Fringe Benefits	1,729,890	1,729,890	-
Staff Travel	12,547	-	-
Equipment (Finding 1D)	20,154	20,154	\$ 20,154
Supplies (Finding 1B)	343,403	229,371	229,371
Facilities & Communications (Finding 1D)	1,050,427	101,563	101,563
Participants Wages & Fringes Unallowable Wage Subsidy Costs (Finding 1A) Unsupported Costs (Finding 1B)	13,313,749	13,079,710	5,359,333 80,551
Supportive Services Unsupported Costs (Finding 1C) Other Than Personnel Services (Finding 1D) Overstated Enrollments (Finding 2A)	5,842,316	3,952,052	2,175,923 393,924 151,225
Other Expenses Unsupported Costs (Finding 1B) Other Than Personnel Services (Finding 1D)	3,459,569	1,868,654	703,260 167,197
Indirect Costs (Finding 1B)	1,039,691	1,039,691	1,039,691
Preaward Cost (Finding 1B)	415,667	415,667	415,667
Subtotal for Budget Line Items	\$ 32,428,797	\$ 27,554,674	\$ 10,837,859
Additional Question Costs Based on Average Participant Costs Ineligible Participants (Finding 2B) Undocumented Non-Wage Subsidy Participants (Finding 2C)			338,490 88,205
Subtotal for Additional Question Costs	\$ -	\$ -	\$ 426,695
Totals	\$ 32,428,797	\$ 27,554,674	\$ 11,264,554

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Appendices

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APPENDIX A

BACKGROUND

CWE was established in 1985 as a not-for-profit agency that provides a wide array of employment, training, and education services to New York City workers, including union members, and dislocated workers. CWE comprises 46 major New York City Central Labor Council affiliated unions, representing more than 1.4 million New York City workers.

Earmarks are funds provided by Congress for specific projects or programs and identify the specific location or recipient to receive the funds. On January 10, 2002, President Bush signed the Defense Appropriations Act, which earmarked \$32.5 million for CWE to establish the EEC and provide employment services to primary and secondary victims of the September 11, 2001, tragedy. Services included: (1) individual assessment, classroom training and job placement; (2) business-related services including in-house upgrade training, targeted labor exchange, contextualized and customized training; and (3) a wage subsidy incentive program (totaling \$18 million) to help employers hire, retain and/or rehire workers in impacted businesses.

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APPENDIX B

OBJECTIVES, SCOPE, METHODOLOGY, AND CRITERIA

Objectives

The Office of Inspector General conducted an audit of the earmark grant (number AF-12214-02-60) awarded to CWE in the amount of \$32.5 million for the period April 1, 2002, through December 31, 2004. The objectives were to determine the following:

1. Were reported costs allowable, allocable and reasonable in accordance with Federal requirements?
2. Did CWE establish the EEC and provide employment services to participants and employers impacted by the events of September 11, 2001?
3. What were the outcomes for participants?

Scope

We conducted our audit in accordance with Generally Accepted Government Auditing Standards for performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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.

Fieldwork was conducted at CWE's office located in New York, New York. Exit conference was held with CWE officials on November 28, 2007. CWE comments on the draft report, received on January 17, 2008, were incorporated into reported findings and are included in their entirety in Appendix D. ETA declined to comment on the draft report, but stated it would address report recommendations for monitoring during the formal DOL resolution process.

For the grant period of April 1, 2002, through December 31, 2004, CWE reported total costs of \$32.4 million and participant enrollments of 24,195. We tested 85 percent of total costs and 100 percent of total participants enrolled.

Methodology

In planning and performing our audit, we considered internal controls of CWE's earmark grant by obtaining an understanding of the program's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of achieving our objectives. Therefore, we evaluated the internal controls as they pertained to grant participants' eligibility, training and employment outcomes, and whether reported costs were allowable, allocable and reasonable.

Our consideration of CWE's earmark grant internal controls would not necessarily disclose all matters that might be reportable conditions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and may not be detected.

We reviewed CWE's grant agreement, grant modifications, Federal Project Officer's monitoring reports, Federal FSR (SF-269), Quarterly Project Activity Reports, grant Closeout Report, CWE's general ledger transaction detail reports, the Indirect Cost Negotiation Agreement, Single Audit reports, and other supporting documents. We interviewed CWE staff and managers, and the U.S. Department of Labor's Federal Project Officer. We examined statistical and judgmental samples of the general ledger transactions and reviewed supporting invoices and other documentation. Specifically,

- For Wage Subsidies, we selected a statistical sample (95 percent confidence level and +/- 7 percent sampling precision) and reviewed 168 of 906 transactions. We reviewed the employer files for documents demonstrating the employers qualified to receive subsidies. We also reviewed the invoices, employers' payroll records, and negotiated contracts. Question costs are actual sample findings.
- To assess whether CWE established the EEC and provided employment services to eligible participants, we performed analytical tests of participant SSN's for 23,005 enrollments, which included 20,513 documented enrollments and 2,492 duplicative enrollments. We performed judgmental samples of 234 participants, and reviewed participants' files for eligibility and enrollment forms. CWE did not provide the requested documentation for the statistical sample of 100 participant files (95 percent confidence level and +/- 9 percent sampling precision). We were unable to assess participant outcomes because CWE did not maintain records.
- For Instructor Salaries' costs, we reviewed 3 of the 49 transactions. CWE only provided invoices and class rosters for 2 of the 3 transactions. We reviewed the class rosters to verify the method of allocation cost.

Criteria

We tested compliance with Federal requirements using the following criteria:

- Workforce Investment Act, Public Law 105–220, August 7, 1998
- Executed grant agreement, as modified (AF-12214-02-60)
- 29 Code of Federal Regulations (CFR) 95, “Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations”
- OMB Circular A-122, “Cost Principles for Non-Profit Organizations”

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APPENDIX C

ACRONYMS AND ABBREVIATIONS

CFR	Code of Federal Regulations
CWE	Consortium for Worker Education
DOL	U.S. Department of Labor
EEC	Emergency Employment Clearinghouse
ETA	Employment and Training Administration
FSR	Financial Status Report
IAM CARES	International Association of Machinists Center for Administering Rehabilitation and Employment Services
NEG	National Emergency Grant
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTPS	Other Than Personal Service
SNAP	Strategic Neighborhood Action Partnership
SSA	Social Security Administration
SSN	Social Security Number
WIA	Workforce Investment Act

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APPENDIX D

GRANTEE RESPONSE TO DRAFT REPORT



Consortium for Worker Education
275 Seventh Avenue, New York N>Y> 10001
(212) 647-1900 Fax (212) 647-1900 www.cwe.org

January 17, 2008

Mr. Mark L. Schwartz
Audit Director
Office of Inspector General
US Department of Labor
201 Varick Street
New York, New York 10014

Re: Comments and Response to Draft OIG Report Number 02-08-203-03-390

Dear Mr. Schwartz:

The Consortium for Worker Education appreciates the opportunity to provide formal comments and a response to the Draft OIG Report Number 02-08-203-03-390 ("Draft Report"). We respectfully disagree with each of the findings discussed in the Draft Report and believe that a review of the now-available documentation will resolve each of the issues raised. We would be happy to discuss and review that documentation with you at your convenience before the Draft Report is finalized. It is important to note that none of the draft findings deal with issues of "waste, fraud or abuse" but rather are matters related to the difficulties faced by CWE in locating files from closed centers two years after the termination of the grant and disagreements about accounting methodologies. We are confident that an overall review of documents both reviewed and now-available will resolve any of the issues addressed in the Draft Report.

Background of the Emergency Employment Clearinghouse Grant

As you are aware, the Emergency Employment Clearinghouse ("EEC") was formed by the Consortium for Worker Education ("CWE") as a partnership of the New York City Central Labor Council and the New York City Partnership and Chamber of Commerce, in order to be a highly flexible response for businesses and workers affected by the tragic events of September 11, 2001.

The EEC, administered by the CWE, was linked to and operated out of its citywide Workforce Investment Act-funded Worker Career Center network as well as a network of various small-business associations, labor-management partnerships, community-based organizations, and job training groups. The

purpose of the EEC, which operated from April 1, 2002 through December 31, 2004 was to provide the following services:

- Outreach to and provide assistance to individuals impacted by the events of 9/11
- Register affected workers for reemployment services
- Provide job training to affected workers
- Help businesses and community institutions affected by the events of 9/11 and the continuing impact from those events maintain their workforce and remain operational
- Provide wage subsidy investments to industries and businesses impacted by the events of 9/11 in order to maintain economic viability and provide employment growth at a time of severe disruption
- Provide employee retention services for affected workers through training and reemployment utilizing EEC initiatives

As approved by the Department of Labor's Regional Employment and Training Administration ("ETA") as well as the New York State's Department of Labor, eligibility for EEC services was based on individuals completing and certifying an application that their employment had been negatively impacted by the events of 9/11.

Comprehensive EEC services started with outreach to and the registration of impacted individuals and businesses across New York City. Assessment of business impact was conducted by a team of sector liaisons assigned by the industry sector expertise of the individuals. Services to impacted individuals were provided through a network of CWE-administered Worker Career Centers, contracted community-based organizations and labor unions, all of which referred affected individuals to EEC funded sites for training and reemployment services. The EEC model was developed in order to leverage partnerships with WIA, Temporary Assistance for Needy Families ("TANF"), NEG, foundation and private equity contributions to achieve the widest possible variety of service and reemployment options to impacted New Yorkers.

Certain industry sectors were immediately and severely impacted during the initial disaster phase, such as New York's healthcare industry. Hospitals were besieged with the casualties of the disaster while elective and non-critical surgeries were postponed as the Federal Emergency Management Agency ("FEMA") took direct charge of ambulatory and healthcare provisions for several months. The highest revenue generator for New York hospitals is elective surgeries. All New York hospitals were confronted with 70% or higher cancellations of elective surgeries during the first 6 months after September 11th. Similarly, the tourism and hospitality industry was decimated for months after the events of 9/11 and hotels needed direct assistance and resources to

maintain even nominal staff. The Arts and Entertainment sector, a \$5 billion dollar contributor to the City’s economy, was shut down for months. Broadway shows, musicals and other scheduled events were indefinitely postponed or canceled due to lack of ticket sales. The construction industry which had been in a growth cycle came to a halt as critical construction trade workers were mobilized for rescue, then recovery, then clean-up efforts at Ground Zero.

CWE and the NYC Partnership initially proposed a wage subsidy as a temporary stimulus package to encourage impacted industries and businesses to maintain operations in order to enable workers to maintain their employment instead of being laid off. Several models were designed to meet the various needs of differently impacted industries and businesses, as different circumstances dictated different service assistance programs.

Many workers who permanently lost their jobs as a result of the events of 9/11 needed skills training services to transition into new jobs and career pathways. Some businesses redesigned jobs or developed new business models due to changes in the business environment, so upgraded and transitional training courses were made available. EEC resources allowed industries and workers to partake of an extensive offering of training, re-training and upgraded training offerings.

The EEC contract set performance expectations at the following levels:

- Contacts 103,000
- Outreach and Recruitment 30,900
- Registered for Services 20,600
- Job Placements 5,150
- Wage Subsidy 3,331
- Training and Education 5,701

CWE met and or exceeded each of these milestones set forth in the grant.

Objective 1 – Were Reported Costs Allowable, Allocable, and Reasonable in Accordance with Federal Requirements?

A: Unsupported or Excessive Wage Subsidy Costs of \$5,359,333

i. Unsupported Healthcare Employer Costs of \$5,122,654

The Draft Report states on page 9, paragraph 3 that CWE officials explained that Healthcare employers did not go through the grant-required application and

qualification process; rather, that hospitals and health care facilities were awarded wage subsidies based only on undocumented oral discussions with representatives of the hospital workers union (Local 1199). Further, the Draft Report states that CWE did not provide any other documentation that documented the impacts, such as expected layoffs, job openings not being filled or business decline, that the hospitals and health care facilities experienced as a result of the events of September 11.

CWE Response:

On December 5, 2007, CWE provided to the OIG copies of background documentation related to the healthcare wage subsidy program. Documents provided included: a) the initial January 2, 2002 proposal from health care labor and management outlining the current state of affected healthcare institutions; b) letters from specific hospitals substantiating the need for wage subsidies; and c) signed subcontracts between identified impacted hospitals and CWE. These documents substantiated that CWE appropriately pre-qualified and vetted the affected healthcare institutions for wage subsidy allocations, demonstrated industry impact by the emergency takeover of NYC hospitals by FEMA, and, included letters from affected institutions describing both impact and need of assistance.

In particular, the January 2, 2002 proposal submitted to CWE from healthcare Local 1199, on behalf of the League of Voluntary Hospitals, documented the immediate impact on various healthcare institutions of the events of 9/11 and its aftermath. Further evidence was the fact that a majority of major NYC hospitals were thrust into emergency service mode and functioned under the direction of FEMA while sustaining revenue losses in the hundreds of millions of dollars.

The proposal proposed a proactive approach to addressing the ongoing erosion of the existing healthcare workforce which would have further devastated a dramatically weakened industry. Local 1199 and the League of Voluntary Hospitals acted as the representatives of the industry in identifying specific issues relative to obtaining letters of attestation as to the affects of the events of 9/11 and its impact on each institution. Due to FEMA's primary role as coordinator of services for all NYC hospitals, there were significant delays with respect to obtaining the written impact statement letters from each affected healthcare institution. Those letters, which were eventually received, are accurate documentation of the impact on the applicable institutions.

CWE worked in partnership with Local 1199, Hospital League representatives, and local USDOL ETA representatives during that period to coordinate communications and develop institutional financial remedies from the EEC grant, while constructing the final details and contract language. This resulted in execution of signed sub-contract agreements with various hospitals between February and July 2002.

These ongoing efforts were all well-documented in the quarterly reports being submitted by CWE to ETA personnel.

ii. Unsupported and Excessive Wage Subsidy Costs of \$236,679

On page 9 of the Draft Report under the sub-heading "Unsupported and Excessive Wage Subsidy Costs", the Draft Report states "CWE paid some wage subsidies that did not comply with Federal requirements of the terms of the grant. This occurred because CWE did not maintain effective controls to ensure compliance with grant terms. As a result, we question wage subsidy costs of \$236,679 based on unsupported participant payroll records of \$225,478, and \$11,201 which either exceeded negotiated grant terms or lacked documentation.

CWE response:

CWE disagrees with this finding. CWE's back-up payroll records and adjustments for wage subsidy payments of \$225,478 are demonstrably accurate and are in compliance with grant guidelines. CWE is willing and able to provide the documented evidence and explanation of those documents that will resolve any concerns or misunderstandings that the auditors might have.

Regarding the \$11,201 classified as "excessive payments and lack of documentation", CWE notified responsible personnel at ETA that a limited amount of wage subsidy costs exceeded the hourly salary guidelines submitted as part of the grant proposal. We notified ETA that under special circumstances, i.e., the employer was to have begun work projects in the Twin Towers shortly after September 11th, that we would amend our general limitation policy. We believe the immediate impact (layoff of their entire workforce) of their inability to remain afloat due to the loss of this contract was a unique circumstance reasonably acceptable of wage subsidy investment flexibility.

The result of this flexibility was the contractor was able to maintain their full-time, experienced core of workers and generate additional business to keep the company operational after the subsidy period ended. This episode demonstrates why CWE offered a variety of flexible wage subsidy models. We anticipated that not all companies, circumstances and situations would fit into a narrow program model prescription.

The CWE disagrees with the Draft Audit assertion that we inappropriately exceeded wage subsidy limits

B. Unsupported FSR Costs of \$2,468,540

The Draft Report states CWE claimed costs for Indirect costs (\$1,039,691); Other Expenses, Supplies, and Wage Subsidies (\$1,013,182); and Pre-Award Costs (\$415,667) without maintaining adequate supporting documentation, As a result, the Draft Report questions unsupported costs of \$2,468,540.

Indirect Costs (\$1,039,691)

CWE Response:

In 2003, CWE applied to the Department of Labor for a preliminary indirect cost rate of 21.34%. CWE received that approval from the Department of Labor. The approved rate of 21.34% was in excess of the 15% rate allowed pursuant to the terms of the ECC grant. All grant draw-downs were based on the capped 15% indirect rate. The CWE is currently working with the Department of Labor's Division of Cost Determination to complete the application for a final approved indirect rate for the years in question (2002, 2003, and 2004). This application will be completed and submitted to the Division of Cost Determination by March 1, 2008. We fully expect the final indirect rates for 2002, 2003 and 2004 will be well in excess of the 15% indirect rate allowed by the ECC grant.

Other Expenses (\$703,260), Supplies (\$229,371), and Wage Subsidies (\$80,551)

CWE Response:

CWE disagrees with the Draft Report's conclusion that CWE did not appropriately classify expenses within budget line items. At issue is how certain costs were allocated to line items. The basis for allocation of line item charges is a correlation of percentage of staff directly charged to the grant. This methodology was consistent with the methodology used in previous grant and contracts with the State and City of New York.

Pre-Award Costs (\$415,667)

CWE Response:

The CWE was specifically authorized by Department of Labor and regional ETA officials to apply costs incurred for grant related activities from January 2002 through April 1, 2002, prior to the formal award of the EEC grant.

CWE disagrees with the Draft Audit report's statement that CWE could not identify these costs in CWE's general ledger. Despite the Draft Audit's assertions with respect issues with CWE's "crosswalk" general ledger, CWE's program costs spent during the approved pre-award timeframe are both appropriate and demonstrable.

C. Unallocable Instructors' Salary Costs of \$2,175,923

The Draft Report states that CWE instructor salaries were not properly allocated to the grant based on the proportional benefit received. The Draft Report further states that CWE did not provide appropriate labor distributions, allocation worksheets or timecards to support the allocation of the amounts reported. The Draft Report further states that class rosters show both EEC and non-EEC students attended classes.

CWE Response:

The CWE documented instructor salaries by timesheets through a memorandum of understanding ("MOU") with various training service providers. Every contracted training provider was advised in advance that in order to pay for 100% of the instructor's time, a minimum of 10 students were necessary to fund the class. CWE only paid the instructor cost when the class roster had been verified. Additional students that are enrolled that were not specifically EEC recipients were allowed to attend classes that already met the minimum student enrollment. Instructor costs for those students were never charged to any other grant. Other costs for those students were appropriately charged to other sources of funds when available and appropriate.

CWE has the documentation available to support these statements and would be happy to review it with the Office of Inspector General.

Objective 2 – Did CWE Establish the EEC and Provide Employment Services to participants Impacted by the Events of September 11, 2001?

A. CWE Overstated Participant Enrollments

Page 14 of the Draft Report states that CWE overstated enrollments by 3,682 and costs of \$151,225 are questioned for the two centers with missing documentation.

Reported to ETA	24,195
Less:	
<i>Duplicative Enrollments</i>	<i>2,492</i>

<i>Unexplained Difference</i>	934	
<i>2 Centers Missing Documentation</i>	<u>256</u>	<u>3,682</u>
<u>Documented Enrollments</u>		<u>20,513</u>
Contract Enrollment Goal		20,600

Duplicative Enrollments

CWE Response:

CWE provided services to thousands of 9/11 affected workers across the five boroughs of New York through a network of more than 30 sites. It is possible that workers occasionally traveled from one center to another seeking a quicker lead to a job or faster access to training on demand. Registration was ongoing and concurrent with sign-up for WIA and TANF related programs. Charities such as Safe Horizon were referring individuals to CWE sites at a rate of up to 400 per day for the initial 6 months of the grant.

Attempts were made to consolidate registered participants on a monthly basis. However, the fluidity of new entries to the system caused numerous crashes to our data collection systems. We made the programmatic decision to reconcile enrollments at the close of grant activity. Given the oversubscription of enrollees to the stated grant goal, CWE still achieved the specified levels for overall enrollment into the program. CWE does not believe any "penalties" should be attributed to the over-attainment of the project.

Unexplained Difference

CWE Response:

CWE believes there were instances where it under-reported on enrollments due to closeouts at multiple intake sites. Furthermore, given the multiple streams of intake sources across the city, initial reports of enrollments may have been greater than what was initially captured. CWE is continuing to resolve any discrepancies with actual enrollments through reconciliation of EEC, WIA and TANF and other referral intakes. We are preparing a full reconciliation with back-up documentation and will make it available upon request.

Two Centers Missing Documentation

CWE Response:

The CWE has obtained the archived file records of subcontractors Fort Green SNAP and IAM Cares, the two closed centers for which records could not be located during the audit process. We can now make those records available upon request.

B. CWE Claimed Ineligible Participants

Page 15 of the Draft Report states that CWE did not provide adequate documentation to support the eligibility of 366 program participants. It cites "WIA Title I, Subtitle E, Section 188(a)(5), Prohibition on Discrimination Against certain Non-citizens, requires that participation in programs shall be for individuals authorized to work in the United States. According to the Social Security Administration ("SSA"), without exception individuals must have a valid Social Security Number ("SSN") in order to work in this country. Further, the grant states that to be eligible for the program, a participant was required to complete and sign a self-certification form attesting that they were impacted by the events of September 11, 2001.

The Draft Report states that CWE enrolled 357 participants without documentation that the individuals were authorized to work in the United States.

- 201 participants had invalid SSNs according to SSA's valid range of issued numbers, and
- 156 participants were enrolled without documentation of their SSNs

The Draft Report further states that CWE did not document nine (9) sampled participants who were impacted by the events of September 11. These nine participants did not have self-certification forms required by the grant.

CWE Response:

The CWE operated EEC intake at various citywide venues. Their goals were to intake and register workers whose jobs were negatively impacted by the events of September 11. As noted above, a self-attestation document was created with the approval of New York State's Department of Labor and ETA to provide simplified access for workers to qualify for employment and other related services. The concern with establishing a more comprehensive document verification process was that many workers could not produce these items in a timely manner to meet government demands to provide workers with access to critical reemployment services so that they could rejoin the workforce.

The CWE and its intake centers relied solely upon the veracity of the self-attestation claim that these individuals were impacted by 9/11. Furthermore, the EEC was not a WIA program and therefore not bound by the eligibility guidelines of document procurement as a verification measure. Therefore, verification of social security numbers was not a requirement for CWE to ascertain from prospective participants. In fact, when CWE proposed to the NYS DOL that we have access to the wage reporting system to verify employment data for validation, the request was summarily rejected by DOL officials who cited concerns with respect to individual privacy.

CWE Could Not Demonstrate That a Statistical sample of Non-Wage Subsidy Participants Received Employment Services.

Page 16 of the Draft Report describes a series of judgmental samples used to test participant eligibility. The Draft Report states CWE was unable to provide files for 100 participants requested under a sample, and cites a July 14, 2006 letter from the CWE Executive Director that affirms CWE made available "all" files. The Draft Report extrapolates from the missing 100 sample that CWE could not confirm eligibility and employment services to 17,373 un-sampled non-wage subsidy participants.

CWE Response:

The CWE made every attempt to locate all participant document folders during the fieldwork phase of their audit between January and July of 2006. CWE staff attempted to convey the complexities involved with locating participant records from multiple sites, which had been archived at storage facilities for several years.

During the 16 month period in which CWE had no contact with the auditors upon completion of their fieldwork review, CWE was unaware this would result in an extrapolated finding for demonstrating eligibility and services on 17,373 additional records. During the meeting on November 28, 2007, CWE noted that these files had been located and that CWE could make them available within a reasonably short timeframe. Since that meeting CWE has been able to locate 95 of the 100 records in the "missing sample" and can make them available for review at your request.

We appreciate the opportunity to provide comments on the Draft Report.

Sincerely,

Joseph McDermott
Executive Director