

U.S. Department of Labor

Office of Inspector General—Office of Audit

**REPORT TO THE EMPLOYMENT
AND TRAINING ADMINISTRATION**



THE CHARLOTTE WORKS REORGANIZED ONE-STOP DELIVERY SYSTEM MET MOST WORKFORCE INVESTMENT ACT REQUIREMENTS

Date Issued: September 19, 2014
Report Number: 03-14-002-03-390

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

BRIEFLY...

Highlights of Report Number 03-14-002-03-390, issued to the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

OIG received an anonymous complaint in September 2011 alleging fraud, waste, and abuse of \$1 million of Workforce Investment Act (WIA) Title IB funds by Charlotte Works Workforce Development Board related to the reorganization of its one-stop delivery system. Specifically, the complainant alleged Charlotte Works improperly spent WIA Title IB funds developing a new facility and website for employers, constructing a new facility within the one-stop delivery system, having an inflated number of staff and staff salaries that resulted in holding back funds to train participants, and incurring extravagant travel. For the period July 1, 2009, through June 30, 2012, Charlotte Works reported more than \$15 million in expenditures of WIA Title IB funds.

WHY OIG CONDUCTED THE AUDIT

Our audit objective was to answer the following question:

Did Charlotte Works comply with WIA requirements in reorganizing its one-stop delivery system and establishing an employer website, and properly expend WIA Title IB funds?

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/2014/03-14-002-03-390.pdf>.

September 2014

THE CHARLOTTE WORKS REORGANIZED ONE-STOP DELIVERY SYSTEM MET MOST WORKFORCE INVESTMENT ACT REQUIREMENTS

WHAT OIG FOUND

The OIG found that, with few exceptions, Charlotte Works complied with WIA requirements in reorganizing its one-stop delivery system and establishing an employer website, and properly expended WIA Title IB funds. Charlotte Works' number of staff and related salaries were reasonable and it properly used WIA funds for travel. However, we found that Charlotte Works did not properly update a memorandum of understanding (MOU) with its workforce development partners, did not obtain approval to provide WIA services at the new Employer Engagement Center, mischarged WIA funds related to the Center's creation, charged costs that exceeded the 10 percent WIA limitation for administrative costs, and enrolled fewer participants and spent less on training after it reorganized its one-stop system. While we concluded these exceptions did not rise to the level of fraud, waste, and abuse of WIA Title IB funds as alleged in the complaint, we identified \$126,159 in WIA funds that Charlotte Works improperly spent.

WHAT OIG RECOMMENDED

The OIG recommended that the Department require Charlotte Works to update its MOU with partner agencies and procure a contractor to provide WIA services and operate the Employment Engagement Center. We also recommended that the Department require Charlotte Works to implement policies and procedures to address the remaining issues we found, and recover \$126,159 in WIA funds that were improperly used.

Charlotte Works disagreed with our findings related to improper expenditures for the renovation of the Employer Engagement Center, and stated it had identified program costs improperly classified as administrative costs that would more than offset the amount we identified as exceeding the 10 percent WIA administrative costs limitation.

ETA stated it will pursue necessary corrective actions through its normal audit resolution procedures.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



September 19, 2014

Inspector General's Report

Ms. Portia Wu
Assistant Secretary for Employment
and Training
200 Constitution Avenue, NW
Washington, DC 20210

DOL's Office of Inspector General (OIG) received an anonymous complaint in September 2011 alleging fraud, waste, and abuse of \$1 million of Workforce Investment Act (WIA) Title IB funds by Charlotte Works Workforce Development Board (WDB) related to the reorganization of its one-stop delivery system. Specifically, the complainant alleged Charlotte Works improperly spent WIA Title IB funds on:

- employment-generating activities and economic development, such as developing a new facility and website for employers in ways opposed to WIA regulations;
- construction related to a new facility within the one-stop delivery system, which violated WIA regulations;
- inflated staff and staff salaries of the local board — too much set aside for administration — which resulted in holding back funds to train participants; and
- extravagant travel under the guise of researching one-stop delivery systems in other states and paying consultant fees related to the reorganization of Charlotte Works' one-stop delivery system.

Based on our preliminary review of the allegations and the magnitude of funds involved, we conducted a performance audit to answer the following question:

Did Charlotte Works comply with WIA requirements in reorganizing its one-stop delivery system and establishing an employer website, and properly expend WIA Title IB funds?

The Workforce Investment Act (WIA) was designed to provide employment and training services to individuals in finding and qualifying for meaningful employment and to help employers find the skilled workers they need to compete and succeed in business. The primary employment and training programs authorized under WIA Title IB are the Adult, Dislocated Worker, and Youth programs. WIA is administered at the federal level by the U.S. Department of Labor's (DOL) Employment and Training Administration (ETA). ETA provides formula-based funding to state governors to operate these programs. In North Carolina (NC), the state Department of Commerce, Division of Workforce Solutions, is the state workforce agency (SWA) responsible for administering WIA. The Division of Workforce Solutions allocates WIA Title IB funds to 23 local Workforce Development Boards (WDB) throughout the state which are responsible for program policy and oversight. For the Charlotte-Mecklenburg area, Charlotte Works, formerly known as Charlotte-Mecklenburg, a not-for-profit public-private partnership entity, is the WDB that provides policy, planning, and oversight for local workforce development programs and addresses local workforce issues.¹

WIA requires each local area to establish a one-stop delivery system through which employment and training services are funded under Title IB and other federal programs. WIA envisions the one-stop delivery system as a partnership in which Wagner-Peyser Act labor exchange services are coordinated with other activities provided by other partners in a one-stop setting.² NC's one-stop delivery system was called the JobLink Career Center system, which provided services to job seekers and assisted businesses to connect with skilled workers.

In November 2011, as a result of NC legislation, the NC Employment Security Commission (ESC), responsible for administering the Wagner-Peyser program, was merged with the NC Department of Commerce to create the Division of Workforce Solutions. The purpose was to bring together in one division the responsibility for administration and oversight of both WIA and Wagner-Peyser programs to provide efficient services to all customers in the state, and to effectively combine talent to reinforce job creation and training services delivery.³

In July 2012, Charlotte Works reorganized its one-stop delivery system when it opened a new workforce center called the Employer Engagement Center, and no longer

¹ For the Charlotte Works WDB, the City of Charlotte received WIA funds from the SWA through its Consortium Sub-grant Agreement Number 2040-36. The City of Charlotte contracted with the Charlotte Works WDB to develop the WIA plan, contract for service providers and one-stop center operators, assume liability for any disallowed costs associated with grant funds, and complete the required state and federal reports.

² Wagner-Peyser services consist of a range of employment-related labor exchange services, some similar to WIA's core and intensive services, such as job search assistance, job referral, placement assistance, re-employment services to Unemployment Insurance claimants, and recruitment services for employers. SWAs cannot use Wagner-Peyser for training services.

³ Wagner-Peyser services consist of a range of employment-related labor exchange services, some similar to WIA's core and intensive services such as job search assistance, job referral, placement assistance, re-employment services to Unemployment Insurance (UI) claimants, and recruitment services for employers. SWAs cannot use Wagner-Peyser for training services.

contracted with ESC to provide WIA services at three of ESC’s job center located in the Charlotte-Mecklenburg area.

The NC Department of Commerce, Division of Workforce Solutions allocates WIA Title IB funds WDB. Table 1 shows WIA Title IB funds allocated to and spent by Charlotte Works for program years (PY) 2009 through 2011:

Table 1: Total WIA Title 1B Funds Allocated and Spent by Charlotte Works

	PY 2009	PY 2010	PY 2011
Funds Allocated	\$4,035,242	\$5,632,612	\$6,219,926
Expenditures	\$3,931,672	\$5,543,440	\$5,839,906

The audit covered Charlotte Works’ administration of WIA Title IB funds for the period July 1, 2009, through December 31, 2012, unless noted otherwise, as related to the allegations identified in the complaint. We reviewed Charlotte Works’ reorganized one-stop delivery system, including implementation of the employer website, to determine if it complied with WIA and ETA requirements. We also identified WIA funds used for construction of the new Employer Engagement Center to determine if their use for this purpose was allowable. Additionally, we analyzed the number and salaries of Charlotte Works staff that performed administrative and program functions to determine if both were reasonable. We reviewed a judgmental sample of costs charged to determine if Charlotte Works properly classified costs as administrative or program and complied with WIA regulations that limited to 10 percent Title IB program funds that could be spent on administration. We also performed a comparative analysis of the number of participants enrolled and WIA funds used for training participants for PYs 2009 through 2012, to determine if there was any program impact as a result of Charlotte Works’ one-stop reorganization. Finally, we reviewed travel expenses paid with WIA funds to determine if the travel and related expenses complied with Charlotte Works’ travel policy and were for workforce development purposes.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Our audit objective, scope, methodology, and criteria are detailed in Appendix A.

RESULTS

We concluded that, with few exceptions, Charlotte Works complied with WIA requirements in reorganizing its one-stop delivery system and establishing an employer website, and properly expended WIA Title IB funds. We found Charlotte Works:

- A) did not properly update a memorandum of understanding (MOU) with its workforce development partners and did not obtain approval to provide WIA services at the new Employer Engagement Center;
- B) mischarged WIA funds related to the Employer Engagement Center's creation;
- C) charged costs that exceeded the 10 percent WIA limitation for administrative costs;
- D) enrolled fewer participants and spent less on training after it reorganized its one-stop system;
- E) had a reasonable number of staff and related salaries; and
- F) properly used WIA funds for travel.

We concluded the exceptions did not rise to the level of fraud, waste, and abuse of WIA Title IB funds by Charlotte Works, as alleged in the complaint. Together, we identified \$126,159 in WIA funds that Charlotte Works improperly spent according to WIA requirements. Details of our results follow.

A) Charlotte Works complied with WIA and ETA requirements when it reorganized its one-stop delivery system and created the employer website, except it did not update its MOU and obtain approval to provide WIA services.

We did not substantiate the allegation that Charlotte Works developed a one-stop system and website that were employment-generating activities and economic development in violation of WIA regulations. Both Charlotte Works' reorganized one-stop system and website (Employer Website) generally complied with WIA requirements. However, we determined Charlotte Works did not properly update an MOU with its workforce development partners and did not obtain approval for its staff to provide WIA services and operate the Employer Engagement Center. These lapses occurred because Charlotte Works officials were not aware of the need to update the MOU and obtain the required approval. An updated MOU is important to ensure one-stop system partners are aware of their current responsibilities in providing services to participants. The approval was needed to ensure that Charlotte Works' function of providing WIA services was a temporary one and that its primary focus is to provide one-stop oversight.

WIA and WIA regulations⁴ require local boards to bring together employment and training programs into a one-stop system. Each local area must have at least one

⁴ WIA, Sections 121 and 134(c); and WIA regulations, Title 20, Code of Federal Regulations (20 CFR), Part 662.100

comprehensive one-stop center where core services for all mandatory programs⁵ are accessible.⁶ Local boards must enter into an MOU with the required one-stop partners. The MOU covers services the partners are to provide, the system's funding of services and operating costs, and the methods for referring individuals between the one-stop operators and partners. The MOU's provisions must also include the duration and procedures for amending the MOU, and may contain any other provisions that are consistent with WIA Title I and the WIA regulations agreed to by the parties.⁷ WIA allows program partners flexibility in the way they provide services, such as allowing colocation, electronic linkages, and referrals. WIA also allows local boards to supplement the comprehensive one-stop centers in such ways as creating: (1) a network of affiliated sites that can provide one or more partners' program services at each site; (2) a network of one-stop partners that are linked physically or technologically to an affiliated site that ensures individuals are provided information on the availability of core services in the local area; and (3) specialized centers that address participants' specific needs, such as those of dislocated workers.⁸

WIA regulations do not allow the local board to directly provide core or intensive services, or be designated or certified as a one-stop operator, unless agreed to by the chief elected official and the governor. These restrictions also apply to staff of the local board.⁹ This limitation is meant to ensure that the local board serves as the "board of directors" for the local area, which frees it from day-to-day functions and allows it to focus on strategic planning, policy development, and system oversight. Permitting staff of the local board to provide direct services would undermine this principle.¹⁰

Furthermore, WIA does not allow Title IB funds to be spent on employment-generating activities, economic development, and other similar activities, unless they are directly related to training for eligible individuals. WIA regulations do allow employer outreach, including contacts with potential employers for the purpose of placing WIA participants.¹¹

⁵ According to WIA, Section 121(b)(1), the one-stop partners include programs authorized under Title IB, the Wagner-Peyser Act, the Adult Education and Literacy title of WIA, the Vocational Rehabilitation Act, Title V of the Older Americans Act, postsecondary vocational education under the Perkins Act, Trade Adjustment Assistance, veterans employment services, unemployment compensation laws, Community Service Block Grants, and employment and training activities carried out by the Department of Housing and Urban Development.

⁶ NC's one-stop delivery system was called the JobLink Career Center system, which provided services to job seekers and assisted businesses to connect with skilled workers.

⁷ WIA regulations, 20 CFR, Part 662.300

⁸ WIA Section 134(c)(2)(B)

⁹ WIA regulations, 20 CFR, Part 661.310

¹⁰ WIA regulations, 20 CFR, Summary and Explanation, Description of Regulatory Provisions, Subpart C, Local Governance Provisions

¹¹ WIA, Section 181(e) and WIA regulations, 20 CFR, Part 661.262

The Employer Engagement Center was not an employment-generating or economic development activity; and the structure of Charlotte Works' reorganized one-stop System met WIA requirements.

We concluded Charlotte Works' Employer Engagement Center was allowed by WIA regulations because its activities involved employer outreach. We determined the Employer Engagement Center supplemented one-stop system services by offering services to job-ready participants, and it did not compete with or duplicate the services of existing employment centers in the Charlotte area. The structure of Charlotte Works' reorganized one-stop system met WIA requirements because its employment centers and main website provided linkages to Wagner-Peyser services provided by the state.

Prior to the one-stop system's reorganization, Charlotte Works contracted with the NC ESC¹² to provide WIA services at three of ESC's job centers in the Charlotte area, and with two non-profit organizations — Goodwill and Charlotte Enterprise Community (CEC) — to provide WIA services at two other locations. Charlotte Works officials explained that the area it served experienced double-digit unemployment during the recent recession, which resulted in the three ESC offices being flooded with UI claims and staff having little time to focus on WIA employment or re-employment activities. At the same time, funding cuts resulted in most partner programs withdrawing services from the decentralized locations. Charlotte Works realized spreading its limited resources through five job centers diluted its potential impact in the community and comingled UI and employment services at the JobLink Career Centers. Charlotte Works officials said they needed to do a better job of engaging employers and aligning the labor supply with labor market demand, and that the JobLink Career Center system was predominantly supply driven and unappealing to the majority of the business community.

In 2010, Charlotte Works commissioned a study on the effectiveness of its JobLink Career Center system and started plans to create a new JobLink Career Center system model intended to align service delivery with private sector standards. During PY 2011, Charlotte Works started a process to launch a new center called the Employer Engagement Center, which it opened in July 2012. Charlotte Works ended its contracts with ESC and CEC, thereby reducing the availability of WIA services to two locations — the South Boulevard Center, managed under contract by Goodwill Industries; and the new Employer Engagement Center. The South Boulevard Center provided comprehensive WIA services, offering access to core services for the partner programs. The Employer Engagement Center was designed to serve individuals who were job ready, and was not comprehensive in that it did not provide services such as assistance with UI claims. However, if UI claimants came to the Employer Engagement Center, staff referred them to the South Boulevard Center or ESC-operated locations. The Employer Engagement Center offered a program in which volunteers donated their time to conduct various workshops such as Resume Coaching, Career Consulting, Mock Interview, Job Search Teams, Educational Fairs, Wellness Fairs, Networking events,

¹² In November 2011, the NC ESC, responsible for administering the Wagner-Peyser program, was merged with the NC Department of Commerce to create the Division of Employment Security.

and Employer/Recruiter presentations. Most of the volunteers were employers, recruiters, consultants, and partners from local educational institutions and nonprofit health and human service agencies.

Charlotte Works' Employer Website was not an employment-generating or economic-development activity and did not duplicate NC's state-operated job website.

We concluded that Charlotte Works' Employer Website activities consisted of screening applicants for employers as allowed by WIA, and did not compete or duplicate the state-operated NC Job Bank and its successor system, NC Job Connector.

In 2011, Charlotte Works collaborated with another local WDB and Siemens Energy to develop a website recruitment tool where job seekers could express interest in job openings and training opportunities. Siemens Energy planned to expand its Charlotte facility and hire more than 800 professional, clerical, and hourly workers. Charlotte Works officials stated they undertook the responsibility to develop a hiring process for this expansion because the state-operated NC Job Bank and its successor system, NC Job Connector, could not be modified to accommodate the hiring process needs for companies like Siemens Energy. Charlotte Works thought the website could assist its job counselors who would be overwhelmed as a result of the anticipated availability of high-paying jobs that would attract applicants from the entire region and flood its workforce offices. Although developed to assist Siemens Energy in identifying qualified candidates, the online screening tool could be adapted to meet the needs of other expanding and relocating businesses.

Charlotte Works did not update its MOU with partner agencies and did not seek approval to allow its staff to provide WIA services and operate the Employer Engagement Center.

Charlotte Works did not comply with WIA requirements regarding its MOU with partner agencies and WIA's prohibition of Charlotte Works providing services and operating one-stop centers unless it obtained approval from the local chief elected official and the governor. Specifically, Charlotte Works did not update its MOU to reflect the changes in its JobLink Career Center system. Since only 1 of the 5 former locations remained open as part of the Charlotte Works one-stop system, the only MOU in effect was for the South Boulevard center operated by Goodwill Industries. This MOU had not been updated since it was signed on February 9, 2007. Because Charlotte Works made significant changes to its one-stop JobLink Career Center system, it needed to execute a new MOU with the required partner(s). This was especially important since the type of participants to be serviced at each center was different. Because Charlotte Works staff was providing core and intensive services at the Employer Engagement Center, Charlotte Works needed the aforementioned approval to ensure the local chief elected official and governor were aware of and approved the situation.

Regarding the reason why the MOU was not updated, Charlotte Works officials explained that for the past two years, the NC Department of Commerce, Division of

Workforce Solutions, and the former ESC were in the process of redesigning the JobLink Career Center system. As a result, the Division of Workforce Solutions put the one-stop system requirements on hold until new rules could be written. In August 2013, the Division of Workforce Solutions executed a revised state MOU that outlined the new expectations of the one-stop system. Charlotte Works officials delayed updating the MOU until the Division of Workforce Solutions provided the new criteria in the revised state MOU and said they were in the process of updating the MOU with Goodwill Industries.

Regarding the reason why approval to provide WIA core and intensive services and operate the Employer Engagement Center was not obtained, Charlotte Works officials explained that prior to the one-stop system's reorganization, they discussed their reorganization plans in depth with Division of Workforce Solutions officials. The Division of Workforce Solutions approved the model that was outlined in a study that Charlotte Works contracted for to review the effectiveness of Charlotte Works' JobLink Career Center system and provided a \$250,000 special grant to pay for the costs of reorganizing the one-stop system. Charlotte Works officials stated that during communications with the Division of Workforce Solutions an approval requirement was never discussed. Charlotte Works officials stated that after OIG brought the issue to their attention during the audit, Division of Workforce Solutions officials told them it was their position that approval was not necessary since they deemed the Employer Engagement Center to be a pilot project. Therefore, Charlotte Works officials felt the required approval was not necessary because the Division of Workforce Solutions provided the grant and approved the reorganization plan, which in their view was the same as granting approval since it was the governor's appointed WIA representative.

Although we found Charlotte Works did not obtain the required approval, during our audit, the City of Charlotte initiated action to procure a contractor to provide WIA services at the Employer Engagement Center. Charlotte Works officials also said the Division of Workforce Solutions was in the process of reviewing the Employer Engagement Center as part of its new state-wide integrated services plan to determine if it can be certified as a level-one career center (i.e., it would provide veteran services and Wagner-Peyser and Trade Adjustment Act services).

B) Charlotte Works mischarged \$59,187 of \$258,928 in WIA funds for capital leasehold improvements related to the creation of the Employer Engagement Center.

We generally substantiated the allegation that Charlotte Works mischarged WIA funds for expenses related to construction of the Employer Engagement Center. Specifically, Charlotte Works used WIA funds for capital leasehold improvements it made to the leased Employer Engagement Center. ETA guidance allows the use of WIA funds for capital leasehold improvements if the landlord is unwilling to make them, and provides a rent adjustment to compensate the lessee for undertaking such costs. The mischarging of funds occurred because Charlotte Works misinterpreted WIA regulations and ETA

guidance regarding the use of WIA funds for capital leasehold improvements. As a result, we questioned \$59,187 in unallowable program charges.

ETA guidance on property used for ETA program purposes states improvements for leased properties are the responsibility of the landlord since, by definition, they increase the value or useful life of the landlord's property. The landlord ordinarily recovers the cost of the improvement by increasing the rent and the guidance suggested those grantees' requests for office space needed for grant program purposes should include the specification of all necessary features, making it unnecessary for grantee/tenants to make such improvements themselves. ETA guidance also recognizes there will be situations in which a landlord is unwilling or unable to make needed capital improvements/renovations to leased premises and it is impractical or infeasible to obtain alternative space. In such situations, capital expenditures for improvements to rented premises are allowable as direct costs. Where feasible, grantees should also seek a rent reduction that reflects the increased value of the landlord's property due to such grantee-financed capital improvements.¹³

Charlotte Works' expenditures to renovate and equip the leased space included \$258,928 from WIA funds and \$90,187 from non-WIA sources, such as the City of Charlotte. We concluded Charlotte Works' use of \$57,687 in WIA funds for renovation costs, such as painting and flooring were not allowed according to ETA guidance. However, we determined the remaining \$201,241, which was used for equipment and furniture, was allowable in accordance with WIA and ETA guidance.

Charlotte Works officials told us that based on their discussions with Division of Workforce Solutions officials and other WIA experts about the use of WIA funds for construction, they deemed painting and replacing worn carpet as allowable WIA costs. Charlotte Works provided a memorandum its landlord prepared during our audit that stated Charlotte Works decided to make leasehold improvements when it moved into the leased space, and had it requested the landlord to make them the monthly rent would have been \$1,200 higher. Charlotte Works officials said that based on the life of the lease, the rent increase would have been \$72,000 had the landlord done the work, which exceeded the \$59,187 Charlotte Works paid for painting and flooring.

Charlotte Works officials further explained that when they found space for the Employer Engagement Center they had significant cash reserves of non-WIA funds from the City of Charlotte that was budgeted for construction. Had they received any feedback at the time that the renovations were not allowable under WIA, they would have used the non-WIA funds. Charlotte Works agreed to reimburse WIA for the unallowable capital leasehold improvements.

The complaint also alleged Charlotte Works arranged for two WDB members to perform the construction to renovate the space needed for the Employer Engagement Center, which we found to be unsubstantiated. Charlotte Works did pay \$1,500 to a company in

¹³ Training and Employment Guidance Letter (TEGL) No. 7-04, Issues Related to Property Used for ETA Programs, Section 14, October 20, 2004

which a WDB member was employed to assist in obtaining local occupancy permits and historical commission approval related to renovating the space. According to WIA, although board members may not provide services in their capacity as a member of the board, if an individual member of the board is also an employee of a service provider, then as an employee of that service provider he/she may provide services on behalf of that entity.¹⁴ However, we took exception to the \$1,500 expense since it was related to the capital leasehold improvements that are not allowed by WIA.

C) Charlotte Works charged \$66,972 in costs that exceeded the ten percent WIA limitation for administrative costs.

For PYs 2009 through 2011, Charlotte Works did not comply with the WIA regulations that limited to 10 percent the amount of Title IB program funds that could be used for administration. This occurred because Charlotte Works did not have policies and procedures during this period to ensure costs were properly classified. As a result, Charlotte Works misclassified administrative costs as program costs and did not have a basis for allocating shared administrative costs to the benefiting function. We questioned \$66,972 in administrative costs that exceeded the WIA 10 percent limit for PYs 2009 through 2011.

Under WIA, costs are classified as either administrative or program.¹⁵ WIA limits local area expenditures for administrative purposes under its formula grants to no more than 10 percent of the amount allocated to the local area.¹⁶ Further, WIA regulations¹⁷ require that personnel and related non-personnel costs of staff performing both administrative functions and programmatic activities must be allocated according to the benefitting cost categories based on documented distributions of actual time worked or other equitable cost allocation methods. Additionally, the state's Division of Workforce Solutions allocated 10 percent of WIA Title IB program funds to its local WDBs for administrative costs, in compliance with WIA regulations. The local WDBs were responsible for properly charging costs to ensure they complied with WIA administrative cost limitations.

For PYs 2009 through 2011, Charlotte Works' reported costs showed it had expended the full 10 percent of administrative cost funds that the Division of Workforce Solutions had allotted to it. At the time of our audit, Charlotte Works had not expended its allotment of administrative funds for PY 2012. For PYs 2009 through 2012, we reviewed a judgmental sample of program costs Charlotte Works charged to WIA Title IB programs to determine if any were misclassified and should have been administrative costs. Our testing found that Charlotte Works improperly charged \$81,470 in administrative costs to the program cost category. Of this amount, \$66,972 was charged

¹⁴ WIA regulations, 20 CFR, Part 652, et al., Summary and Explanation, Part 661, Subpart C

¹⁵ WIA, Section 185(g)

¹⁶ WIA Sections 128(b)(4) and 133(b)

¹⁷ WIA regulations, 20 CFR, Part 667.220(c)(2)

for PYs 2009 through 2011, which resulted in costs exceeding the WIA 10 percent administrative cost limitation.

Charlotte Works' Accounting Policies, Procedures, and Internal Controls manual in effect during the audit period did not address the allocation of shared administrative and program costs to ensure they were accurately charged to the proper cost category. Charlotte Works officials agreed that prior to the appointment of the current Chief Financial Officer (CFO) in 2012, costs may not have been properly classified, but they did not intend to circumvent the WIA administrative cost limitation requirement. The CFO explained how she found certain occupancy costs were charged fully to either the program or administrative function, perhaps as an ad hoc allocation method. For example, rent may have been charged to the administrative cost category and utilities to the program function. She suggested if our audit testing had included expenses charged to the administrative cost category, we probably would have found program costs that were misclassified as administrative. We did find two transactions in PY 2012 for shared non-personnel costs in which Charlotte Works overcharged the administrative cost category and undercharged the program cost category by \$629. However, we concluded it was not feasible to expand our testing because it would have required us to review 100 percent of all costs charged to identify those that were misclassified, and subsequently determine the correct allocation between administrative and program costs.

Charlotte Works officials acknowledged the need to properly classify and allocate costs, which is why they revised the Accounting Policies, Procedures, and Internal Controls manual in August 2013. The manual contained procedures to ensure non-personnel costs shared between the administrative and program functions were to be allocated based on staff ratios. For personnel costs, the new procedures required Charlotte Works' President and CFO to annually consult with the directors and managers to determine where each employee is spending their time. For those employees who spend time in both administrative and program functions, a determination will be made as to the average amount of time spent in each area so that the employees' payroll can be coded in such a way to allow it to be allocated to administrative and program functions. The procedures also stated the changes will also be made when an employee's job description changes during the year.

D) The number of participants enrolled and percentage of funds spent on training decreased after Charlotte Works reorganized its one-stop system.

The number of participants enrolled and the percentage of funds spent on training decreased after Charlotte Works reorganized its one-stop system. As a result, there was a risk that persons in the Charlotte area did not receive needed employment and training services. This occurred because the reorganization reduced the number of centers from five to two, and Charlotte Works did not have a plan to address the possible impact on participants' access to WIA services. However, according to data

Charlotte Works provided after our field work, the number of participants has since returned to pre-reorganization levels.

We did not find that the enrollment decrease correlated to the allegation that “WIA Title I funds were held back from training Charlotte citizens and put into inflated salaries of the staff of the local board [and that] too much of the funds was set aside for administration.” WIA has no requirements on how much of allotted Title IB funds have to be spent on training.

We performed a trend analysis of participant enrollment and training cost data for PYs 2009 through 2012 and concluded the reduction in centers as a result of Charlotte Works’ reorganized one-stop system had an impact on the number of participants enrolled and the percentage of funds Charlotte Works spent on training.

Table 2 shows WIA participants enrolled by location for PYs 2009 through 2012.

Table 2: WIA Participant Enrollment by Location

Location	PY 2009	PY 2010	PY 2011	PY 2012
ESC East*	476	450	291	N/A
ESC Main*		1	1	N/A
ESC Uptown*	66	29	1	N/A
Goodwill South Boulevard	216	189	148	162
CEC*	376	343	249	N/A
Charlotte Works WDB	1	12	35	331
Youth ⁽¹⁾	276	401	453	413
Grand Total	1,411	1,425	1,178	906

*Charlotte Works discontinued WIA services at these locations as a result of cancelled contracts.

(1) Different contractors provided Youth Services and the number enrolled were not reported by location.

We attributed the decrease of 247 participants enrolled (17 percent) between PYs 2010 and 2011 to the end of American Recovery and Reinvestment Act (Recovery Act) funding. Of the approximate \$12 million in total Title IB funds that Charlotte Works spent in PYs 2009 and 2010, \$3.9 million represented Recovery Act funding.

We found enrollment decreased by an additional 272 participants (23 percent) between PYs 2011 and 2012, which we attributed to the reduction in WIA service sites from 6 to 2 as a result of Charlotte Works’ discontinuing contracts with ESC and CEC. Although enrollment increased at each of the 2 remaining sites, the increases were not enough to offset the losses that resulted from closing the other sites.

We analyzed the Monthly Financial Status Reports and Requests for Funds for each of Charlotte Works' contractors that provided WIA services to participants. As shown in Table 3 below, we calculated the percentage of WIA funds that Charlotte Works used

for training, focusing on 2011 and 2012, and found it decreased from 34 percent in PY 2011, to 28 percent in PY 2012.

Table 3: Funds Spent for Training for PYs 2009 though 2012

	PY 2009	PY 2010	PY 2011	PY 2012
Funds Spent for Training	\$2,845,200	\$2,059,269	\$1,737,415	\$1,176,668
Total Funds	\$6,695,296	\$4,880,246	\$5,177,449	\$4,236,970
Percent of Funds for Training	42%	42%	34%	28%

Charlotte Works officials acknowledged the drop in the number of individuals receiving intensive services in PY 2012, but said data for PY 2013 through April 30, 2014,¹⁸ showed an increase in intensive services traffic for the WIA Title IB programs to levels more than those in PY 2011, before the one-stop system reorganization.¹⁹ Charlotte Works officials agreed the decrease in PY 2012 was not ideal, but they understood the potential positive outcomes as a result of the new services being offered, such as workshops, classes, and coaching sessions provided by more than 200 volunteers. Charlotte Works officials believed the risk of the decrease was well worth the positive outcomes and that they took reasonable steps such as community outreach, marketing, and media relations to mitigate any possible public confusion that could have impacted the reorganization of the one-stop system.

E) The number of Charlotte Works staff and related salaries were reasonable.

Our analysis of Charlotte Works’ staff size and salaries did not find any indication that they were excessive and caused funds to be withheld from training participants. Specifically, more than 75 percent of the 24 Charlotte Works’ staff members performed program functions, and their salaries did not exceed ETA salary and bonus limits. The remaining staff performed administrative functions. However, we did find that salaries for 2 staff members exceeded an independent market salary study contracted by Charlotte Works. This occurred because Charlotte Works did not have controls in place to document its justification for paying staff a higher salary than what was shown in the study. As a result, almost \$18,000 in WIA funds for these two staff members may have been put to better use.

Neither WIA nor ETA has staffing level requirements for local workforce agencies. According to ETA guidance, salary and bonus payments to individuals funded from any

¹⁸ Charlotte Works provided the data after we completed our field work; therefore, we did not validate its accuracy and support.

¹⁹The data showed that Charlotte Works enrolled 1,315 participants in WIA Title IB programs as of April 30, 2014, as compared to 903 participants for the entire PY 2012. Charlotte Works provided the data after our field work; therefore, we did not validate its accuracy and support.

ETA program, grant, or contract is limited to the rate of Federal Executive Level I, which was \$177,000 for 2009, and \$179,000 for 2010 through 2012.²⁰

Our review of Charlotte Works' staffing found that most of the staff performed program-related activities. A significant staffing increase occurred in 2012, when Charlotte Works' management opted to provide WIA program services at the new Employer Engagement Center rather than use a contractor; and the ratio of program to administrative staff also increased. Table 4 provides Charlotte Works' staff functions and related salaries for calendar years 2009 through 2012.

Table 4: Analysis of Staffing Levels for Calendar Years 2009 through 2012

	2009	2010	2011	2012	Average
Administrative Staff	3	3	4	5.5	3.9
Program Staff	9	13	9	18.5	12.4
Total Staff	12	16	13	24	16.3
Percentage of Administrative Staff	25%	19%	31%	23%	24%
Administrative Salaries	\$221,862	\$240,211	\$326,497	\$304,938	\$273,377
Program Salaries	\$428,607	\$493,867	\$382,217	\$710,820	\$503,878
Total	\$650,469	\$734,078	\$708,714	\$1,015,758	\$777,255
Percent of Administrative Salaries	34%	32%	46%	30%	36%

We found that none of Charlotte Works' staff salary and bonus payments exceeded the ETA limit of a federal Executive Level I employee. In April 2012, Charlotte Works retained The Employers Association and Gilreath Consulting, Inc., to assess the reasonableness and competitiveness of compensation for the organization. Although we found two employees' salaries exceeded the levels for comparable positions in the contractor's study, the differences did not demonstrate a pattern of abuse as alleged in the complaint. We considered the salary to be excessive if the difference was more than 10 percent. Table 5 provides details on the comparison of the two employees' annual salary to the study's salary levels for PYs 2009 through 2012.

²⁰ TEGL No.5-06, Implementing the Salary and Bonus Limitations in Public Law 109-234

Table 5: Comparison of Annual Salary to the Study’s Salary Levels for PYs 2009 through 2012

Employee Title	2009	2010	2011	2012
1. Special Projects Coordinator				
Salary	\$23,425	\$47,818	\$47,501	\$52,855
Study Salary Level	\$44,515	\$45,241	\$45,977	\$46,772
Difference	(\$21,090)	\$2,577	\$1,524	\$6,083
Percent	(9)	5	3	12
2. Chief Financial Officer(a)				
Salary	Not	Not	Not	\$86,940
Study Salary Level	Employed	Employed	Employed	\$63,157
Difference	With	With	With	\$23,783
Percent	Charlotte	Charlotte	Charlotte	27
	Works	Works	Works	

(a) The Chief Financial Officer worked part time; therefore, the salary was to be annualized.

The complaint also alleged Charlotte Works’ staff salaries needed to be disclosed to members of the WDB and be made public. Although we found no such requirement existed, Charlotte Works’ bylaws state that all meetings at which WDB business is discussed, will be conducted in public and any member of the public desiring to so participate may do so as long as he or she notifies the chairperson before the meeting of the subject he/she wishes to address.²¹ Charlotte Works did not have any evidence that it provided staff salaries to the WDB; however, our review of minutes from the June 21, 2012, WDB meeting showed that Charlotte Works’ annual budget was discussed. Although there was no information on salaries for each staff person, the budget included a line item for salaries and bonuses by activity — Administration, Adult, Dislocated Worker, Youth, Special, Incumbent Worker, and On-the-Job Training.

We believe it would be a good business practice for Charlotte Works officials to annually provide a listing of staff salaries to the WDB’s Executive Committee so there is evidence that they are aware of compensation levels and have the opportunity to evaluate salary reasonableness, especially for those levels that exceeded the salaries in the contractor’s study. Charlotte Works officials told us they would disclose salary information if a public records request was made by the media or the public, but they were not aware of any such requests.

F) Charlotte Works properly used WIA funds for travel related to workforce development purposes.

We did not substantiate the allegation that Charlotte Works spent WIA funds on extravagant travel under the guise of research for developing the Employer

²¹ WIA, Section 11, Public Notice of Meetings

Engagement Center, including using travel funds to pay consultants fees. Our review of 40 travel vouchers totaling \$50,040 for all out-of-town travel²² by Charlotte Works employees found the travel was for workforce development purposes, and the costs incurred were appropriate, reasonable, and supported by documentation. Our review of Charlotte Works' travel policies found they were adequate to ensure employees did not incur extravagant charges by requiring the travel to be for program purposes, the amounts spent on meals be limited, and standard lodging rates and coach class be used.

Of the 40 travel vouchers, 7 totaling \$5,918 were related to the development of the new Employer Engagement Center. The vouchers showed 3 Charlotte Works employees traveled to Washington, Texas, Florida, and New York, all of which were cited in the complaint. We found Charlotte Works had trip reports describing the activities and results of these trips, and our analysis of the vouchers showed costs complied with Charlotte Works' travel policies and were not extravagant. Our review of the remaining 34 vouchers found all were for workforce investment purposes and complied with Charlotte Works' travel policies. We found no vouchers for consultants.

Recommendations

We recommend the Assistant Secretary for Employment and Training direct the NC Department of Commerce, Division of Workforce Solutions, to require Charlotte Works to:

1. Update its MOU with partner agencies to reflect the changes in responsibilities for its reorganized one-stop system. (Results A)
2. Procure a contractor to provide WIA services and operate the Employment Engagement Center. (Results A)
3. Develop and implement policies and procedures to ensure that when new leases are negotiated, rent reductions are obtained and documented if there is a need for capital improvements to be made to the leased property. (Results B)
4. Develop and implement policies and procedures requiring that the WDB's Executive Committee is annually provided a staff salary listing for evaluation and approval. (Results E)
5. Develop and implement policies and procedures to ensure administrative costs are properly classified and allocated to the benefiting function so they do not exceed the WIA 10 percent limitation. (Results C)

²² Travel was for the period of July 1, 2009, through October 31, 2012.

6. Repay \$59,187 improperly used for capital leasehold improvements related to construction of the Employer Engagement Center. (Results B)
7. Repay \$66,972 in administrative costs that exceeded the WIA 10 percent limitation for PYs 2009 through 2011. (Results C)
8. Review PY 2012 expenditures to identify misclassified costs between the program and administrative cost categories and determine if the WIA administrative cost limitation was exceeded and if so, repay the excess amount. (Results C)
9. Develop and implement policies and procedures to ensure staff salaries that exceed its market salary study are justified and documented and provided to the Board for approval. (Results E)

Charlotte Works Response

The President/CEO of Charlotte Works did not agree with the issues reported in Results B and C. Concerning Result B, the President/CEO responded that the decision to spend \$59,187 in WIA funds for painting and flooring during the renovation of the Employer Engagement Center was based on the belief that payment for the leasehold improvements in the manner made was allowable. He reiterated the statements Charlotte Works officials made during our audit that they believed this was a more efficient use of funds than having the landlord perform the work and incurring a rent increase.

Concerning Result C, the President/CEO Charlotte Works maintained that Charlotte Works did not spend more than the allowable 10 percent for administrative costs, and disagreed with the method used by the auditors to review compliance with the WIA administrative costs limitation. According to Charlotte Works, subsequent to our audit, it identified \$349,533 in program costs it had improperly classified as administrative that would more than offset the questioned costs we identified. Charlotte Works' response is included in its entirety as Appendix C.

North Carolina Division of Workforce Solutions Response

The Assistant Secretary for Workforce, NC Department of Commerce, Division of Workforce Solutions, responded that the Division of Workforce Solutions is aware of Charlotte Works officials' disagreement with two of our findings and is in full support of their point of view. The Division of Workforce Solutions' response is included in its entirety as Appendix D.

ETA Response

The Assistant Secretary for Employment and Training responded that ETA will pursue necessary corrective actions through its normal audit resolution procedures. ETA's response is included in its entirety as Appendix E.

OIG Conclusion

Concerning Charlotte Works' officials disagreement with the issues in Result B, the documentation from the landlord was provided after the lease was executed, as a result of our audit. It is our position that documentation of any rent reduction should have been part of the lease and made at the time it was executed, in order to timely demonstrate a decision on the cost effectiveness of the leasehold improvement.

Concerning Charlotte Works' officials disagreement with the issues in Result C, documentation supporting Charlotte Works' internal review of vouchers for administrative and program costs was provided after our audit fieldwork. Therefore, this issue should be addressed in the resolution process with ETA.

We appreciate the cooperation and courtesies that Charlotte Works' personnel extended to the Office of Inspector General during this audit. OIG personnel who made major contributions to this report are listed in Appendix F.



Elliot P. Lewis
Assistant Inspector General
for Audit

Appendices

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Appendix A

Objective, Scope, Methodology, and Criteria

Objective

Did Charlotte Works comply with WIA requirements in reorganizing its one-stop delivery system and establishing an employer website, and properly expend WIA Title IB funds?

Scope

The audit covered Charlotte Works' administration of WIA Title IB funds for the period July 1, 2009, through December 31, 2012, except as noted under Methodology, as related to the allegations identified in the complaint. We conducted work at Charlotte Works in Charlotte, NC.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Methodology

To determine if Charlotte Works' reorganized one-stop delivery system, including implementation of an employer website, complied with WIA and ETA requirements, we interviewed Charlotte Works officials, conducted walkthroughs of how WIA services were provided, and reviewed Charlotte Works' WIA plans for PYs 2009 through 2012. As of the end of our field work in February 2014, Charlotte Works received an extension from the NC Department of Commerce, Division of Workforce Solutions, for submission of its 2013 WIA plan that was originally due in March 2013.

The areas we reviewed that were related to the complaint consisted of:

- Charlotte Works' reorganized one-stop delivery system, including the implementation of an employer website;
- WIA funds totaling \$258,928 related to creating the Employer Engagement Center;
- Charlotte Works' staffing and salaries, totaling \$3,109,019 for calendar years 2009 through 2012;
- Administrative costs charged to WIA programs and controls related to the WIA administrative cost limitation;

- Comparative analysis of the number of participants Charlotte Works enrolled and the percentage of its WIA funds spent on training for the period July 1, 2009, through June 30, 2013; and
- WIA funds used to pay 40 out-of-state travel vouchers totaling \$50,050 for the period July 1, 2009, through October 31, 2012.

To determine if WIA funds used for construction of the new Employer Engagement Center were allowable, we reviewed all related invoices that were charged to WIA programs. We obtained an understanding of the costs and identified those that were for capital improvements to the leased space where the Employment Engagement Center was located.

To determine if Charlotte Works' staff and salaries were excessive, we identified the percentage of staff performing program versus administrative functions and compared salaries and bonuses paid to ETA limits and a salary study contracted by Charlotte Works.

To determine if Charlotte Works complied with the WIA administrative cost limitation, we reviewed a judgmental sample of program costs that Charlotte Works charged to WIA Title IB programs.

To determine how the reorganized one-stop delivery system impacted Charlotte Works' WIA programs, we performed a comparative analysis of the number of participants enrolled and the amount of WIA funds Charlotte Works used for the past 3 program years to train participants.

To determine if travel paid with WIA funds was extravagant under the guise of research and to pay consultant fees, we selected vouchers for out-of-state travel and determined the purpose of the travel and whether it was related to workforce issues. We also reviewed trip reports for travel that was for researching how other local areas operated their one-stop systems.

Sampling

We used judgmental sampling in our work to determine if Charlotte Works complied with the WIA administrative cost limitation. We reviewed a sample of high-dollar program costs Charlotte Works charged to WIA Title IB programs. For the audit period, Charlotte Works submitted 42 Voucher Requests, which consisted of 660 invoices totaling \$20,235,987. Based on our understanding of Charlotte Works' WIA program, we identified vendors that provided WIA services and did not include the invoices for these vendor/contractors in our testing because they represented program costs. The remaining invoices were for expenses that Charlotte Works incurred to operate WIA, which Charlotte Works charged to either the administrative or program cost categories. We sampled from those invoices that were charged to the program cost categories because of the risk that some of the costs were actually administrative. For the audit

period, we identified 83 such invoices, totaling \$1,981,675, and selected the highest dollar invoice for each quarter, and also used judgment to select additional invoices to ensure we covered all WIA Title IB programs. Our sample consisted of 19 invoices containing 294 transactions, totaling \$718,949.

Data Reliability

We performed a data reliability assessment to ensure we had complete and accurate expenditure and performance data. We reconciled expense reports compiled by Charlotte Works to its general ledger, Voucher Requests, Monthly Financial Status Reports, and financial reports from the NC Division of Workforce Solutions' Financial Management Information System, which was used to accumulate and report WIA expenses statewide. Where we found differences, we determined their impact on our audit. We also used participant enrollment data generated from the Division of Workforce Solutions' Workforce Plus System. We ensured the data was relevant to our work and included all the data elements needed for our analysis. We were able to reconcile data from Workforce Plus to the data provided by Charlotte Works officials. Overall, we found the financial and enrollment data to be sufficiently reliable for our work.

A performance audit includes an understanding of internal controls considered significant to the audit objective and testing compliance with significant laws, regulations, and other requirements. In planning and performing our audit, we considered whether internal controls significant to the audit were properly designed and placed in operation. This included reviewing Charlotte Works' policies and procedures related to maintaining participant files. We confirmed our understanding of these controls and procedures through interviews and documentation review and analysis. Our consideration of Charlotte Works' internal controls for maintaining participant files 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 not be detected.

Criteria

- WIA of 1998
- 20 CFR, Part 652 et. al, August 11, 2000
- TEGL 7-04, Issues Related to Property Used for ETA Programs, October 20, 2004
- TEGL 5-06, Implementing the Salary and Bonus Limitation in Public Law 109-234, August 15, 2006
- Charlotte-Mecklenburg WDB, Accounting Policies, Procedures and Internal Controls, April 1, 2012

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Appendix B

Acronyms

CEC	Charlotte Enterprise Community
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ESC	Employment Service Commission
ETA	Employment and Training Administration
MOU	Memorandum of Understanding
NC	North Carolina
OIG	Office of Inspector General
PY	Program Year
Recovery Act	American Recovery and Reinvestment Act
SWA	State Workforce Agency
TEGL	Training and Employment Guidance Letter
WDB	Workforce Development Board
WIA	Workforce Investment Act

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Charlotte Works Response to Draft Report

CHARLOTTE WORKS

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July 24, 2014

Mr. Elliot P. Lewis
Assistant Inspector General for Audit
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room S-5506
Washington, D.C. 20210

RE: Draft Audit Report No. 03-14-002-03-390

Dear Mr. Lewis:

Charlotte Works welcomes the feedback from the OIG team that investigated the anonymous complaint filed in September 2011. As a transparent organization, Charlotte Works is very open to the review and would like to provide feedback to the findings.

Charlotte Works acknowledges that, at the time of the complaint, the financial policies and procedures of the organization needed to be strengthened. Coincidentally, and ahead of the complaint, the leadership team transitioned in the fourth quarter of 2011 as a directive from the Workforce Development Board. Part of the motivation to transform the entire system included the Board's desire to embrace best practices across operations, especially in accounting practices. Today, Charlotte Works adheres to industry standards and practices. We are proud of our progress.

There were six findings from the OIG complaint. Charlotte Works disagrees with findings B and D and their corresponding recommendations as detailed below.

OIG Finding - B:

Charlotte Works mischarged \$59,187 of \$280,589 in WIA funds for capital leasehold improvements related to the creation of the Employer Engagement Center

7. Repay \$59,187 improperly used for capital leasehold improvements related to construction of the Employer Engagement Center

Charlotte Works Response - B:

At issue is \$59,187 that Charlotte Works spent to cover the costs of paint and flooring during the renovation of the Employer Engagement Center. Based on information provided by the accounting staff in place at the time, we believed the payment for the leasehold improvements in the manner made to be allowable.

Our landlord advised us that if he had made these leasehold improvements prior to our move into the space, he would have charged us an additional \$1,200 per month for the base rent cost, interest and risk premium. We calculate \$1,200 per month multiplied by the 60 months of the lease equals an additional cost of \$72,000 would have occurred. As the funds were available to pay for flooring without incurring this additional long-term cost, Charlotte Works chose to save taxpayers the \$12,813 difference, which we believed to be a more efficient use of public funds.



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OIG Finding - C:

Charlotte Works charged \$66,972 in costs that exceeded the ten percent WIA limitation for administrative costs

8. *Repay \$66,972 in administrative costs that exceeded the WIA 10 percent limitation for PYs 2009 through 2011*

Charlotte Works Response - C:

During the audit of costs for these program years, OIG staff tested 10 vouchers submitted to the City of Charlotte for reimbursement of program costs to conclude that we mischarged \$66,972 in administrative costs to program costs, thus exceeding our allowable 10-percent administrative cost limitation. These 10 vouchers were for program costs *only*, and reviewed *only* to determine if program dollars were used to pay administrative costs. OIG staff did not sample administrative costs to verify if the converse – administrative dollars applied to program costs – was true, despite our request for this test.

Our own internal review of not only these 10 vouchers, but of *all* vouchers for reimbursement of formula and ARRA funds during these three program years, found invoices that were charged to administrative costs that could have been allocated entirely or partially to program costs, and invoices that were charged to program costs that should have been allocated partially or totally to administrative costs. In fact, Charlotte Works paid more than \$349,533 in program costs from administrative funds, thereby more than offsetting the \$66,972 in overspending alleged by OIG. (These schedules have been provided to both OIG and ETA.)

We also note that during Program Years 2009 through 2011, Charlotte Works had more administrative funds to perform administrative functions than needed, so we routinely paid WIA program costs out of WIA administrative funds, rather than returning those excess funds. Charlotte Works could not have overspent administrative funds on administrative costs when we directed such a large portion to programming.

Charlotte Works asserts that OIG's methodology (e.g., a sample size that only included expenses originally charged to program costs and no expenses originally charged to administrative costs) was flawed and led to the false assumption that we overspent our administrative set-aside. We note that OIG "concluded that it was not feasible to expand our testing because it would have required us to review 100 percent of all costs charged to identify those that were misclassified, and subsequently determine the correct allocation between administrative and program costs."

We do not request reimbursement of the funds based on our findings, but do strongly maintain that we clearly did not spend more than the allowable 10 percent for administrative costs.

As noted at the beginning of this response, Charlotte Works is mindful of our responsibility of good stewardship of public funds. Accordingly, we operate by the highest standards.

Sincerely,



Steven B. Partridge
President/CEO

Division of Workforce Solutions Response to Draft Report



North Carolina
Department of Commerce
Division of Workforce Solutions

Pat McCrory, Governor
Sharon Allred Decker, Secretary

Will Collins, Assistant Secretary for Workforce

July 24, 2014

Mr. Elliot P. Lewis
Assistant Inspector General for Audit
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room S-5506
Washington, D.C. 20210

RE: Draft Audit Report No. 03-14-002-03-390

Dear Mr. Lewis:

We appreciate the opportunity to respond to the Office of the Inspector General's (OIG) draft report of the investigation of an anonymous complaint concerning Workforce Investment Act (WIA) activities at Charlotte Works.

Though many of the allegations raised in the anonymous complaint proved to be unfounded, this report indicates that there are issues with the use of WIA funds for capital improvements and with the charging of administrative costs. Staff from Charlotte Works have disputed those findings and have raised valid concerns about the methodology used and the conclusions reached through the investigation. While staff from our Division were engaged in the early stages of the investigation and provided assistance to OIG staff with data and background information, we were not involved in the actual on-site analysis of expenditures. Nevertheless, we are very familiar with the positions that the staff of Charlotte Works have taken regarding the findings of the OIG and we are in full support of their point of view.

We would hope that the final report of this investigation will include the additional information available from the Charlotte Works staff and that the conclusions in the report will be revised appropriately.

Sincerely,

A handwritten signature in black ink that reads "Will Collins".

Will Collins
Assistant Secretary

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ETA Response to Draft Report


U.S. Department of Labor

Employment and Training Administration
200 Constitution Avenue, N.W.
Washington, D.C. 20210



AUG 15 2014

MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General
Office of Audits

FROM: PORTIA WU 
Assistant Secretary

SUBJECT: Response to the Office of the Inspector General's Audit,
The Charlotte Works Reorganized One-Stop Delivery
System met Most WIA Requirements

The Employment and Training Administration (ETA) appreciates the opportunity to provide a response to the Office of the Inspector General's (OIG) audit report on alleged fraud, waste, and abuse of Workforce Investment Act (WIA) Title 1B funds by the Charlotte Works Workforce Development Board during the recent reorganization of its one-stop delivery system. We were pleased that the OIG audit confirmed that Charlotte Works was in compliance with most WIA requirements and concur with OIG's recommendations, including the identification of some questionable grantee costs.

In response to the draft report, ETA's Regional Office in Atlanta has engaged North Carolina's state workforce agency (SWA) and Charlotte Works on the findings and appropriate corrective actions plan. On Thursday, June 24, both the SWA and Charlotte Works provided OIG with responses to the report which agreed with all but two of the OIG findings. As part of its response, Charlotte Works provided additional information regarding the questioned findings for further consideration by OIG. Charlotte Works has demonstrated to ETA that they are taking proactive actions in response to the unchallenged findings by transforming its accounting system and adhering to accepted industry standards and practices. ETA will continue to engage with both the SWA and Charlotte Works throughout the implementation of these changes. In regards to the two questioned findings, ETA wants to ensure that Charlotte Works' objections and additional information are considered before taking further action.

Following the release of OIG's final report, ETA will pursue necessary corrective actions in response to OIG's final audit findings. ETA will follow our audit resolution procedures as outlined in 20 CFR Part 667.400 through 667.510. After our final determination is issued, ETA will conduct a monitoring visit to ensure all necessary corrective actions have occurred.

Again, ETA appreciates the OIG's investigation of alleged mismanagement of WIA funds and this opportunity to provide a response to the final report.

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Appendix F

Acknowledgements

Key contributors to this report were Michael Hill, Audit Director, Dan Pompili, Audit Manager, Sheila Lay, Joe Pomianek, Badara Kamara, Laura Brockway, Carmelle Paytes, and Christine Allen.

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