Office of Inspector General

U.S. Department of Labor
Office of Audit

Audit of Stillman College's
Competitive Welfare-to-Work Grant

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ACRONYMS

CFR	–	Code of Federal Regulations
DHR	–	Department of Human Resources
DOL	–	U.S. Department of Labor
ETA	–	Employment and Training Administration
FY	–	Fiscal Year
ETFRC	–	East Tuscaloosa Family Resource Center
FSR	–	Financial Status Report
OIG	–	Office of Inspector General
OMB	–	Office of Management and Budget
TANF	–	Temporary Assistance for Needy Families
WtW	–	Welfare-to-Work

EXECUTIVE SUMMARY

On January 4, 1999, Stillman College received a competitively procured Welfare-to-Work (WtW) grant from the U.S. Department of Labor (DOL) Employment and Training Administration (ETA). The purpose of the grant was to place 850 hard-to-serve individuals in unsubsidized employment, over a 2-year period.

In September 1999, an ETA technical assistance team identified issues regarding the College's compliance with Federal requirements. In June 2000, the Office of Inspector General (OIG) received a complaint that indicated the technical assistance team's concerns were not being adequately addressed and questioned Stillman's capability of meeting performance goals in the grant. In response to the complaint, we audited financial and program activities related to Stillman's WtW grant for the period January 4, 1999 through June 30, 2000.

Our Findings

We identified a variety of fiscal and program management issues which have caused us to question whether the grant should be continued.

We found that financial accountability over the grant was poor. Program expenditures Stillman reported to ETA at June 30, 2000, could not be reconciled with grant expenditures recorded in the College's general ledger. Further, the report was not prepared on an accrual basis, as required by ETA, and was not completed in accordance with other reporting instructions.

We identified $194,936 of questionable expenditures included in the College's general ledger. Specifically:

- salaries and fringe benefits were overcharged by $48,075;
- equipment totaling $133,988 was overcharged to the grant; and
- other goods and services costing $12,873 were overcharged to the grant.

Several performance issues were also identified. WtW requirements emphasize that certain welfare recipients deemed "hard-to-serve," have priority in getting assistance. Requirements provide that no more than 30 percent of grant funds may be spent assisting "other eligible" persons. However, the College did not have a system for tracking expenditures spent in assisting "hard-to-serve participants" and those who are designated as "other eligibles."

We also found participants were not being placed in unsubsidized employment at a rate consistent with the grant's terms. As of June 30, 2000, three-fourths of the way through the initial 2-year grant period, Stillman reported it had placed only 76 participants in jobs, or about 9 percent of the 850 persons it proposed serving in the original grant. Consequently, the average cost for each placement had risen to over $9,600, instead of $4,400 that was anticipated when ETA awarded the competitive grant.

We found indications that Stillman may have substantially overestimated in its proposal the number of eligible welfare recipients who were available to be served. Finally, the files of participants reported as placed often did not contain documentation of Stillman's efforts to find them jobs. Consequently, Stillman's role in finding them jobs is uncertain.

ETA recently extended the grant period until January 2, 2002, and reduced placement goals from 850 to 200, and the total grant was reduced by about $841,000. The changes resulted in an anticipated average cost for each placement of $14,400.

Recommendations

Reduced estimates of the need for the program and the variety of problems we identified caused us to question the program's viability. We are also concerned that the significant reduction in performance expectations allowed by the modification calls the competitive grant process into question, as the award was based on representations that a much larger population of welfare recipients would be served, at significantly lower average costs.

Consequently, we recommend the Assistant Secretary for Employment and Training reconsider the decision to extend the grant. If reevaluation leads to the conclusion that modification of the grant was not advisable, provisions should be made for assisting participants who are currently enrolled in the program and the grant should be terminated.

If the Assistant Secretary decides the grant should be continued, the "Recommendations" section of thi report provides a summary of several changes we believe must occur in order for Stillman to responsibly administer an effective program. We also recommend ETA ensure $194,936 in grant expenditures we have questioned are not claimed or paid.

Stillman's Response

Stillman did not disagree with our finding that reported expenditures were inconsistent with the College's accounting records. Stillman offered explanations for some of the costs we questioned but did not provide adequate justification for charging the questioned costs to the grant. Also, Stillman stated that since placement goals had been reduced from 850 to 200, they would meet, i not exceed, the revised goals.

OurAnalysis of Stillman's Response

The response did not provide additional information that caused us to alter findings, conclusions or recommendations in our draft report.

INTRODUCTION

Objectives of Welfare-to-Work Grants

Provisions of the Balanced Budget Act of 1997 (Act), authorized DOL to make $3 billion available for WtW grants. WtW grants intend to help Temporary Assistance for Needy Families (TANF) program recipients, and certain non-custodial parents find employment.

During FYs 1998 and 1999, $711 million of the $3 billion in WtW funds was designated for award through competitive WtW grants. ETA solicited grant applicants from private and public organizations to administer transitional assistance programs and help hard-to-employ welfare recipients find lasting jobs that offer good prospects of self-sufficiency. ETA judged the applications it received on a variety of published criteria that included the need for funds in the area served by the applicant, the viability of the proposed service delivery strategy, and likelihood of a proposed project's success.

To date, ETA has made three rounds of competitive WTW grant awards. While the periods of performance for the projects vary, grant funds may be available for up to 5 years beyond the initial date of the grant award.

Principal Grant Requirements and Criteria

WtW competitive grants have a "work-first" emphasis. The grants are meant to provide welfare recipients with transitional assistance that moves them into unsubsidized employment with good career potential for economic self-sufficiency. Transitional assistance may be provided to participants through a strategy that first engages them in employment-based activities. Basic or vocational skills training may be provided for a period of up to 6 months pre-employment, or as a post-employment activity, in conjunction with either subsidized or unsubsidized employment.

In addition to provisions of the Act, nonprofit grantees are required to follow general fiscal and administrative rules contained in Office of Management and Budget (OMB) Circular A-110, which is codified in DOL regulations at 29 CFR 95. Also, provisions of OMB Circular A-21, which include requirements for determining the allowability of costs, must be followed by educational institutions. Program regulations specific to WtW grants, found at 20 CFR 645, apply to the competitive grants.

Provisions of 20 CFR 645.235 identify allowable administrative costs. The provisions also limit administrative costs charged to the competitive grants to no more than 15 percent of the grant award.

Stillman College's Competitive Grant

On January 4, 1999, Stillman College, located in Tuscaloosa, Alabama, received a 2-year WtW grant in the amount of $3,723,620. The period of performance for Stillman's Work-First Program was January 4, 1999 through January 3, 2001.

The purpose of the initial grant was for Stillman to place 850 hard-to-serve individuals in unsubsidized employment over a 2-year period. Stillman's grant application stated its objective was to place recipients in jobs and provide support necessary for lasting employment. Stillman was to provide individual assessment, job readiness, job search and placement assistance to welfare recipients, non-custodial parents and public housing residents.

On December 1, 2000, ETA modified the grant, reducing the number of expected placements from 850 to 200. The grant period was also extended an additional year, until January 2, 2002, and the grant amount was reduced by $841,390, from $3,723,620 to $2,882,230.

OIG's Involvement

In September 1999, an ETA technical assistance team identified serious grant administrative, compliance and performance issues. In June 2000, the OIG received a complaint that indicated problems with Stillman's stewardship of the grant identified were not being addressed. Issues cited in the complaint included a variety of poor financial management practices and spending abuses. Additionally, the complaint indicated it was unlikely Stillman would be able to meet performance goals established in the grant.

We reviewed financial and performance data related to Stillman's WtW grant operations as of June 30, 2000. Our initial work suggested that several concerns expressed in the complaint had merit. Consequently, we began a limited scope audit of grant activities that occurred from January 4, 1999 through June 30, 2000.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

We audited the WtW-funded competitive grant awarded to Stillman College to determine if WtW funds were spent in accordance with applicable laws and regulations.

Scope

Our audit included Stillman WtW program activities that occurred from January 4, 1999 through June 30, 2000.

Methodology

To obtain an understanding of the WtW program, we reviewed legislation, regulations, grant and grant proposal material prepared by Stillman. We interviewed ETA national and regional office staff responsible for oversight of the WtW grants, and Stillman's staff who was responsible for accounting and administrative controls over grant expenditures and program operations.

We reviewed Stillman's financial and program records that related to issues identified in the complaint Additionally, to evaluate grant performance, we randomly selected a sample of 30 participants from the 76 participants who had obtained unsubsidized employment as of June 30, 2000. Participant files were reviewed to determine if participants were eligible for, and had been adequately served by, Stillman's WtW program. Our sample was designed to provide review results at a confidence level of 90 percent.

It was not an objective of our audit to issue an opinion on whether the WtW grant expenditures included on the June 30, 2000, Financial Statement Report (FSR) Stillman submitted to ETA were accurate, complete or reported in accordance with instructions. However, in completing our tests, it came to our attention that a material unreconciled difference existed between expenditures reported in the College's general ledger, which was represented as the accounting system used for preparing FSRs, and expenditures reported to ETA. We also found accrued expenditures were not reported on the FSR, as required, and that other reporting requirements were not followed. (See the "Results of Audit" section of this report for a discussion of the issues.) Consequently, we concluded the June 30, 2000, FSR was not prepared in accordance with ETA's reporting instructions and should not be relied upon.

Therefore, the financial portion of our audit consisted of a review of accounting data and supporting documentation maintained in Stillman College's general ledger system. We did not evaluate the college's general operations internal controls. Our examination was limited to the administrative and accounting controls applicable to Stillman College's WtW grant.

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States and included such tests as we considered necessary to satisfy the objectives of our audit. Our field work began in August 2000 and continued intermittently through September 2000.

RESULTS OF AUDIT

We found that concerns regarding Stillman's stewardship of grant funds and its ability to meet performance goals had merit. Financial reports were inaccurate and unsupported, rendering them unreliable. Unallowable costs had been charged to the grant. Expenditure requirements had not been observed and performance goals which were the basis on which the grant was awarded to Stillman, had not been met.

Expenditure Reports Were Improperly Prepared and Not in Agreement with The College's Accounting System

Grant recipients must provide ETA with quarterly FSR that indicate cumulative accrued grant expenditures. However, expenditures reported on the June 30, 2000, FSR did not agree with amounts reported in the College's accounting system. Also, the FSR was not prepared in accordance with the reporting instructions and contained inaccuracies.

Costs reported on the FSR did not agree with Stillman's General Ledger. We were told by Stillman's grants manager that the College's accounting system was the means used to accumulate gran expenditures and to prepare FSR that were submitted to ETA. However, expenditures reported on the June 30, 2000, FSR did not agree with the College's general ledger. Stillman reported cumulative grant expenditures of $716,734 on its June 30, 2000 FSR (lines 2 and 3 combined); however, our compilation of expenditures coded as WtW grant expenditures in the College's general ledger totaled $930,261. Stillman did not provide us with a reconciliation of the differences between the general ledger and FSR. [1]

Grant expenditures were not reported on an accrual basis. We also found that Stillman had not followed reporting instructions in preparing the FSR. ETA's instructions require that accrued expenditures be reported on the FSR. Under the accrual basis of accounting, expenditures are recognized when they are incurred. However, the College did not prepare the June 30, 2000 FSR on an accrual basis. Rather, the College maintains a cash-based accounting system. Consequently, an item's cost is recorded only after cash has been paid out. We found many instances where grant-

[1] The difference of $213,527 may be explained, in part, by exclusion from the FSR of two buses, purchased for $108,620, that ETA had previously advised Stillman were unallowable grant expenditures. (See the discussion of this item that follows under questioned costs.) Also, several year-end adjustments totaling $7,709 that involved WtW funds were made by Stillman's accounting department. However, even allowing for these adjustments, expenditures on the FSR differed from those in the general ledger by nearly $100,000.

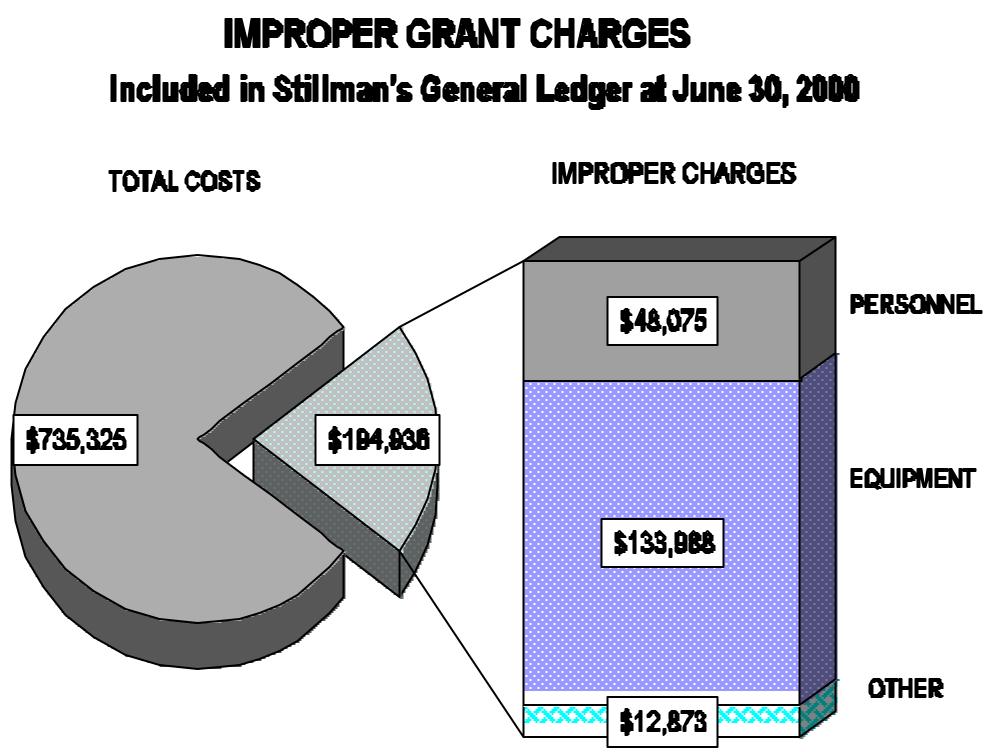
related costs had been incurred months prior to the end of the quarter, but had not been properly recognized because Stillman did not report them as expenditures until they were paid.

The FSR was improperly completed. We also noted that the FSR had been improperly completed. Instructions for preparing the FSR require that total grant expenditures be reported on line 2 of the form. However, the College omitted administrative expenditures from costs reported on line 2 of the FSR. As a result, total grant expenditures reported on the FSR were understated.

Improper Grant Charges of $194,936 Were Identified

Because Stillman did not provide support for expenditures of $716,734 reported on the June 30, 2000 FSR, we examined expenditures included in the College's June 30, 2000 general ledger that were coded as WtW grant costs.

Figure 1



OMB Circular A-21, Section C.2.(d) provides that for costs to be allowable, they must conform to limitations set forth in the agreement. Also, Section C.4.(a) provides that goods or services are chargeable relative to benefits received by the grant.

Of the $930,261 in total expenditures posted to Stillman's general ledger for the WtW account, we identified $194,936 that did not satisfy the Circular's criteria. For purposes of discussion, we have classified the charges into the categories of personnel, equipment and other costs, as illustrated in Figu 1.

Personnel Costs of $48,075 were improperly charged to the grant. The general ledger contained personnel costs of $48,075 that should not have been charged to the WtW grant. Improper charges include:

- $26,935 in excessive salary and fringe benefit costs that were allocated to the WtW grant; and

- $21,140 of personnel costs that exceeded amounts authorized in the grant.

The WtW grant was charged more than its fair share of the Grants Manager's salary and fringe benefit costs. We estimate the excess charges were $26,935. Stillman charged 100 percent of its Grants Manager's payroll costs to the WtW grant. However, the Grants Manager did not dedicate 100 percent of his time to administering WtW grant activities. Rather, the Grants Manager was responsible for administering at least 12 other public and private grants, in addition to the WtW grant.

Stillman did not maintain information that would have allowed us to determine the amount of time the Grants Manager devoted to administering each grant. Lacking better information, we estimated the various grants' share of the costs based upon the proportion of each grant's budgeted expenses to the total. Total budgeted costs for the 13 grants, which included $876,389 for the WtW grant, was $3,268,207 for the year ended June 30, 2000. (See Exhibit 2.) Using this methodology, only about 27 percent of the Grants Manager's costs should have been charged to the WtW grant. The overcharge amounted to $23,725 in salary and $3,210 in related fringe benefit expenses.

We also found the WtW grant was charged $21,140 for personnel costs in excess of amounts authorized in the grant. The grant stipulated the costs that could be charged to the grant for certain staf who administered the WtW grant program. Grant provisions required that
" . . . any changes in wages, salaries, and fringe benefits must receive prior written approval from ETA's Grant Officer." Six employees received $21,140 in salaries and related fringe benefits that

exceeded rates authorized by the grant agreement. Prior approval from the Grant Officer was not received for the overages.

Equipment Purchases Totaling $133,988 should not have been charged to the grant. We identified $133,988 of improper equipment purchases that were charged to the WtW grant in the College's general ledger. The charges involve:

- $108,620 for the unauthorized purchase of buses; and

- $25,368 of computer equipment that was not being used for the WtW grant program.

In a monitoring visit made prior to our audit, an ETA technical assistance team identified two buses whose costs were improperly charged to the grant. The buses were purchased before the start date of the grant and without required ETA approval. Further, ETA determined they were not necessary for grant operations. The team recommended that the costs be disallowed. In an August 12, 2000 "Response and Corrective Action" addressed to ETA, the College indicated it had ". . . made the necessary adjustment," for the cost of the buses.

According to the Grant's Manager, the cost of the two buses had been removed from expenditures reported on the FSR, for June 30, 2000. We could not confirm the adjustment had been made to the FSR. However, we did find that $108,620 coded as a WtW grant charge in the College's general ledger had not been removed. Therefore, it is necessary that Stillman demonstrate that both the College's general ledger and subsequent FSRs have been properly adjusted.

We also noted that Stillman was considering the purchase of three vans to transport program participants. At the time of our review, Stillman had a fare reimbursement agreement with a local taxi company to transport participants to their work and return them to their homes. OMB Circular A-21, Section C.2.(a), "Cost Principles for Educational Institutions" provides that for cost to be allowable, ". . they must be reasonable." We do not believe that the costs of purchasing and operating the vans are reasonable.

We selected a sample of vouchers covering program operations from May 13, 2000 to June 18, 2000, and analyzed the costs of transporting participants. The average number of riders each day during this period was 3.7, and the highest number of riders on any day was 7, which occurred only once. At least 1 participant accessed the service each day we sampled and the average number of riders on weekends was 2.2 participants per day. The average daily taxi cost was $45.43 per day, or a monthly cost of $1,362.

Assuming a 5-year life, the allowable monthly use charge to the WtW grant would be about $1,375 per month ($82,500 estimated cost of the vans divided by 60 months). The use charge for the vans is exclusive of other operating cost, such as insurance, fuel, repairs, maintenance, and drivers. Consequently, the cost of purchasing, operating and maintaining the vans would easily exceed this amount.

We also found that the grant was overcharged $25,368, for the purchase of 21 computers. Stillman's inventory of computers indicated 26 computers were being used in various locations in the WtW program. However, the grant was charged for the costs of purchasing 47 computers. Consequently, 21 computers should not have been charged to the WtW grant. Records indicate 8 of the computers were purchased on September 23, 1999, for a total of $7,961. The remaining 13 computers were purchased on October 12, 1999, for a total of $17,407.

Other costs totaling $12,873 should not have been charged to the grant. We identified a variety of additional costs that should not have been charged to the WtW grant. The items are discussed in greater detail in sections of this report that follow, and include:

- $9,633 paid another provider for services to program participants;
- $2,220 involving inadequately supported telecommunications billings;
- $540 of childcare expenses for program participants who were not enrolled in work-related activities at the time services were rendered; and
- $480 for breakfast and lunch services to the College's staff.

Stillman paid the East Tuscaloosa Family Resource Center (ETFRC) $9,633 for costs that were not allocable to the WtW grant. ETFRC was a nonprofit community-based organization that was established in 1998 to help TANF recipients obtain self sufficiency, provide training to youth entering employment, and act as an advocate for children. The Center participated as a subcontractor in the College's Work First program. The College agreed to reimburse ETFRC for all costs directly related to serving eligible WtW participants. In addition, general operating costs of the ETFRC were to be shared equally between the Center and Stillman.

We believe the arrangement was equitable, since staffing levels and space occupancy used for WtW and other activities are about evenly distributed. However, the agreement was not followed. Some expenses, such as lease, maintenance, equipment and installation costs were charged entirely to the WtW grant, and not distributed as was agreed. (See Exhibit 3.)

We also found that the grant had been charged $540 for childcare services relating to participants who were not involved in work-related activities at the time childcare services were rendered.

Additionally, the grant was charged $480 for breakfast and lunch services provided at staff meetings, to Stillman employees associated with the WtW grant. Refreshments are not allowable entertainment expenses according OMB Circular A-21, Section J.15, Cost Principles for Educational Institutions.

Finally, the grant was charged a total of $2,220, in two separate entries of $1,110 each, for telecommunications expenses. The charges were supported by one invoice for $1,110 that did not identify the nature of the costs or the location of the telecommunications services that were billed. Consequently, we were unable to determine if the charges related to the grant. Also, we believe the second charge is a duplicate of the first. Therefore, we question both charges.

Adequate Procedures Were Not in Place for Tracking Funds Spent on Target Groups

Program criteria require that a majority of WtW grant funds be spent assisting certain "hard-to-serve" individuals. However, the College did not have an adequate system for tracking costs spent on eligible target groups.

Grantees are instructed to report amounts spent on hard-to-serve and other eligibles separately on lines 5.a. and 5.b. of the FSR. The instructions are necessary to help ensure compliance with regulations that allow no more than 30 percent of grant funds to be spent on other eligible participants. However, the College was unable to support expenditures it reported for the two categories of participant costs on its June 30, 2000, FSR.

We reviewed Stillman's system for accumulating and reporting grant costs, and did not find a mechanism to assign participant-related costs to the two categories. However, we did find that as early as April 2000, Stillman had begun to break out costs on "Request for Funds" forms. Although we found this to be an improvement over having no tracking system, we believe Stillman should modify their automated system to track these participant costs.

Program Performance Goals Have Not Been Met

Stillman has not met performance goals stipulated in the initial grant agreement. We found program files often did not contain evidence of the assistance provided to participants who the College reported it had placed in unsubsidized employment.

Stillman received $3,723,620 to place 850 participants in unsubsidized employment during the 2-year period that began January 4, 1999. After 18 months of operation (January 1999 through June 2000), only 184 recipients had been served by Stillman's Work-First Program, and only 76 of the participants served (31"primary" eligible participants and 45 "other eligibles") had been placed in unsubsidized employment.

Assuming a consistent placement rate throughout the original grant period, about 75 percent, (637) of the total 850 anticipated placements should have occurred by June 30, 2000. However, the 76 participants Stillman reported it had helped find jobs represented less than 9 percent of the 850 participants Stillman indicated it would place.

There are several reasons for the low level of performance. The client base of eligible TANF recipient Stillman had agreed to serve did not materialize. Stillman's grant proposal indicated 540 local area TANF families classified as "long-term having received assistance for 30 months or more [and] were within 12 months of losing eligibility." However, we were told by an official of the Tuscaloosa County Alabama, Department of Human Resources (DHR) that during 1999, the total "long-term" TANF case load of 36 clients was divided among Stillman and two other WtW grantees, and only 15 clients had been referred to Stillman. TANF reforms had apparently reduced the number of potential participants from 540 families at the time Stillman's grant proposal was formulated to only 36 recipients when Stillman began program operations.

WtW eligibility criteria were modified in January 2000, to allow assistance provided to noncustodial parents to be included in the "primary" (70 percent) eligible category. However, our work indicates this change did not produce any significant increase in the number of WtW clients available to be serve under the "primary" eligibility criteria.

DHR's records indicate that by August 2000, there were only 32 long-term TANF recipients in Tuscaloosa County, 6 in Greene County, where Stillman had opened an additional WtW office, and 1 in Hale County, where Stillman was considering opening another office.

Also, Stillman's primary source of client referrals had evaporated. By July 2000, DHR had concerns about the effectiveness of Stillman's WtW program. Consequently, Tuscaloosa County DHR had not referred any of the 32 TANF recipients who were eligible for assistance as hard-to-serve clients, at that time. Also, DHR withdrew 4 of the original 15 referrals to Stillman ". . . due to the lack of sufficient involvement on the part of Stillman College Work First staff."

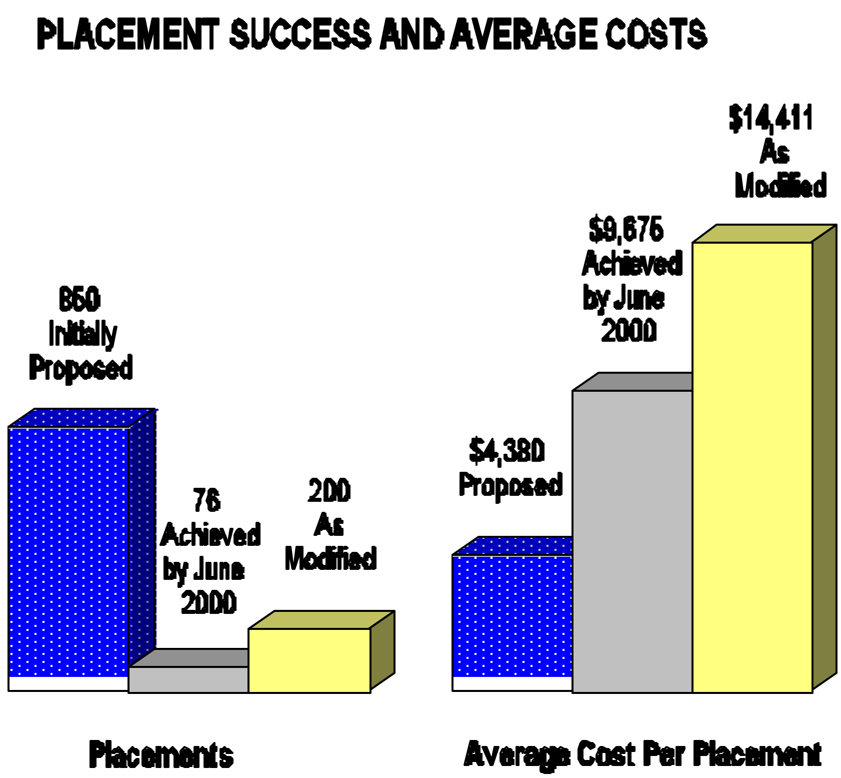
Our work also resulted in concerns about the sufficiency of placement assistance the Work First program provided clients. We randomly selected a sample of 30 participants from among the 76 who Stillman reported as having placed in unsubsidized employment, by June 30, 2000. We reviewed participant files to determine if Stillman's efforts on behalf of the participants were documented and if eligibility determinations were properly completed. Available documentation did not provide evidence that Stillman had helped 8 of the 30 participants (27 percent) find jobs.

Placement Costs Have Increased

According to review notes ETA prepared when evaluating the proposal, the College's plan to place 850 individuals in unsubsidized employment, at an average cost of about $4,380 ($3,723,620 divided by 850), was considered a "reasonable investment."

However, by the end of our audit period, Stillman had placed less than 9 percent of the individuals originally proposed and the average cost per placement was double the estimate

Figure 2



ETA had deemed reasonable. Based on allowable expenses charged to the grant, the average cost for each of the 76 reported placements, as of June 30, 2000, had risen to $9,675 ($735,325 divided by 76 placements). (See Figure 2.)

Placement cost will further increase, under recent modifications to the grant's performance goals. On December 1, 2000, ETA extended the grant's period of performance an additional year. Total funding was reduced from $3,723,620 to $2,882,230. However, goals for the number of expected placements were reduced from 850 to 200, or less than one-quarter of the number in the initial grant. If Stillman is able to achieve its modified goal of placing 200 participants, the average cost per placement will climb to $14,411, or triple the average cost Stillman had initially proposed. The cost per placement could increase even further, if the modified goal is not achieved.

Conclusions

The variety of problems identified with fiscal and program administration of the grant cause us to question Stillman's capability to operate an effective program and the advisability of the grant's extension. Even if Stillman were to quickly initiate corrective action and improve its stewardship of the grant, the average cost per placement will escalate.

Also, such dramatic reductions in performance expectations and increased costs call the competitive award process into question. The College received a grant based on representations in its grant proposal that: a local program was needed; it had the capacity to administer an effective program; a much larger number of welfare recipients would be served; and average costs would be substantially lower. It is uncertain that this grantee would have competed successfully for the award if the current performance goals were presented in the original grant proposal.

RECOMMENDATIONS

We recommend the Assistant Secretary for Employment and Training reevaluate whether continuation of the grant is warranted. If reevaluation leads to the conclusion that modifying the grant was not advisable, provisions should be made for assisting participants currently enrolled in the program and the grant should be terminated.

If it is the Assistant Secretary's decision to continue the grant, ETA should require that Stillman institu effective accounting and administrative controls over program operations and monitor Stillman's activities to ensure:

- grant expenditures claimed by the College are supported and allowable;
- fiscal and performance reports are properly prepared and contain accurate data;
- costs are properly allocated to the various grant programs;
- administrative cost limitations are observed;
- spending limitations relating to the non-primarily-eligible participants are not exceeded; and
- participant files contain evidence of assistance provided to participants reported as placed in jobs.

We also recommend ETA ensure $194,936 in grant expenditures we have questioned are not claimed or paid.

STILLMAN COLLEGE'S COMMENTS ON THE DRAFT REPORT

Stillman disagreed with many of the findings, conclusions and recommendations contained in our draft report. (See Exhibit 4 for the text of Stillman College's response.)

Stillman acknowledged that the FSR did not agree with WtW grant expenditures identified in the College's general ledger, at June 30, 2000. According to the response, "Due to the utilization of dual accounting systems, disparities occurred prior to 6/30/00 because the College's accounting books were not closed monthly." The response also indicated expenditures were not reported on an accrual basis, because of outdated accounting software. According to the response, new financial software has been implemented that includes improved methodology for tabulating cumulative accrued expenditures A reconciliation, said to be of amounts reported on the June 30, 2000 FSR and the College's general ledger, was attached to Stillman's response.

However, Stillman did not agree with our finding that personnel costs were charged in excess of rates authorized in the grant agreement. Rather, the response argues we have failed to consider amounts budgeted for fringe benefits. The grant agreement allows a fringe benefit allowance of up to 25 percen of budgeted salaries. The salary amounts we have questioned, the response contends, are the WtW grant's share of fringe benefit costs. Concerning staff salaries we questioned that were in excess of WtW grant's fair share, the response indicates retroactive adjustments have been made ". . . to reflect the dedicated amount of time spend on WtW grant activities."

Regarding $108,620 in grant costs we questioned that involved the unauthorized purchase of two buses, Stillman commented that only $105,000 of the cost was charged to the WtW grant and that the College paid $3,620 of the purchase price. The response indicates the College is willing to bear the entire cost of the buses; however, " . . . since they have been in fact used to transport WtW clients, an equitable, pro-rated allotment should be allocated (60%-College share 40%-Grant share)."

The response also indicates we erred in questioning the costs of 21 computers charged to the WtW grant that were not used in the WtW program. Stillman commented:

> *OIG mistakenly construed that check #89034 amounting to $43,657 . . . was for purchases . . . of computers solely for the WtW program. In fact, the grant was only charged for 23 computers at a cost of $23,002, the balance of the check to Dell Computers was for the distribution of computers assigned to and paid for by other College departments. The pertinent supporting documents affixed to check #89034 clearly illustrates that the check total was disbursed for 3 different general ledger account numbers."*

Concerning $9,633 of questioned costs Stillman paid another service provider, the response indicates, "As of April 15, 2000, ETFRC (the other provider) no longer participates in the WtW program. The amount of $9,633 was a liability consisting of retroactive monthly salaries and costs to run that Center for WtW activities."

The response also indicates the telecommunications charges we questioned as unsupported were for telephones, installation and wiring of a new WtW program center. Stillman also argued that $540 of questioned childcare charges were legitimate grant costs, but did agree that $480 spent on staff meals and refreshments is an unallowable cost.

In response to concerns over its performance, Stillman points to an increase in the number of clients served and placed in unsubsidized jobs, since July 2000. Stillman argued that their potential client bas has not evaporated, as indicated by a total of 273 participants served and 147 placed in unsubsidized employment, as of December 30, 2000. According to Stillman, the Tuscaloosa County DHR was not their only source of eligible clients. The response cites "broad-based research" that indicates more tha 75 eligible clients in Hale and Pickens Counties satisfy current WtW program eligibility criteria. However, Stillman commented it will not open offices in those Counties.

Finally, Stillman disagreed with our finding that there was no evidence on file to indicate Stillman's involvement in helping 8 of the 30 participants we sampled find jobs. According to the response, " . . . evidence will show that a twenty-five step process is used to place each eligible client on jobs."

ANALYSIS OF STILLMAN COLLEGE'S COMMENTS

Although Stillman's response indicates inaccurate reporting was the result of confusion caused by the use of dual accounting systems, we were told by Stillman's management that the College's accounting system was the sole source from which the FSRs were prepared. We are not aware that Stillman used a dual accounting system. We were not provided access to any other financial accounting system other than that which supported the College's general ledger. Consequently, we are unable to comment on Stillman's explanation for discrepancies between the general ledger and the FSR, or the accuracy of the reconciliation Stillman provided. Stillman should submit a corrected FSR to ETA that is based on the College's general ledger.

Stillman commented that steps have been taken to adjust and to properly allocate costs that benefit more than one grant. The response does not provide the amount of the adjustments. However, the framework of a cost allocation plan is attached to the response. However, the plan does not address procedures that will be used in capturing information required to equitably distribute joint administrativ costs, such as time devoted to administering various programs by the Grants Manager.

We do not agree with Stillman's comments that the salary overages we questioned constitute allowable fringe benefit charges. Stillman is allowed to charge fringe benefits to the grant of up to 25 percent of the budgeted salaries. The general ledger contained numerous direct charges for fringe benefit costs o staff involved in administering the grants. We did not question any fringe benefit charges, because they did not exceed the 25 percent of authorized salary amounts. However, Stillman cannot treat salaries paid in excess of authorized amounts as allowable fringe benefit costs. Changes to budgeted wages, salaries or fringe benefits requires the Grant Officer's prior written approval.

We also disagree with Stillman's response that part of the buses' purchase price should be considered allowable charges to the grant. The buses were not an approved expenditure, were unnecessary, were purchased before the grant was effective, and their full purchase price of $108,620 was recorded in the general ledger as a WtW grant expenditure. Further, the grant agreement allows for the purchase of 3 vans at a total cost of $105,000. According to Stillman, they have now purchased the vans. Consequently, the entire cost of the buses should be borne by Stillman.

Concerning the charges for 21 computers we questioned, the College's general ledger indicated that Stillman charged a total of 47 computers to the WtW grant. Of the total, 11 computers were purchased in July 1999 for use by the ETFRC at a total cost of $14,155. The remaining 36 computers were posted to the general ledger using two separate entries (23 computers for $23,002, and 13 computers for $17,602) with a transaction date of November 30, 1999. The WtW program's inventory of computers listed only 26 computers, and in a written statement by Stillman, they confirme that only 26 computers had been purchased for use in the WtW program. We question the 21 computers that were not included in the WtW program's inventory, which includes all 13 computers purchased for $17,602, and 8 of the 23 computers included in the $23,002 purchase (3 at a unit price of $1,047, and 5 at a unit price of $964).

Stillman's response argues that the 36 computers purchased with a transaction date of November 30, 1999 were charged to 3 different departments, as a document attached to the invoice indicates. We agree that the invoice does break out the computer-related costs as Stillman claims. However, we found that 13 computers, purchased for $17,602, that should have been charged to another department, were actually charged to the WtW grant, according to the College's general ledger. As stated above, these computers were not included in the WtW program's inventory, and should not have been charged to the grant.

Our position has not changed concerning ETFRC's costs that were improperly allocated between the WtW grant and other Center functions. Because Stillman is the grant recipient, it retains responsibility for ensuring that all costs, including those of its subcontractors, are equitably allocated among funding sources.

We continue to question unsupported telephone charges, because Stillman did not provide acceptable documentation that the charges were allowable. Acceptable documentation would include a description of the services or products provided and the location that received them. Also, the response does not provide rationale or additional documentation that supports Stillman's comments tha the childcare expenses we questioned were legitimate. Consequently, we are unable to comment further on this item.

While Stillman claims to have substantially increased placements since our audit field work ended, they did not indicate how many of the placements claimed were hard-to-employ TANF recipients, who are the primary group the WtW program intends to help.

Stillman's response does indicate that 192 participants, who represent 70 percent of the entire 273 participants served as of December 31, 2000, were not hard-to-serve TANF recipients. While Stillman may have increased the number of placements they have made since July 2000, less than one-third of the program participants served, as of December 31, 2000, were hard-to-serve clients. We note that the majority of clients being served by Stillman are eligible for assistance under other existin Federal programs, such as the Workforce Investment Act.

Stillman disagreed with our statement that its client base of hard-to-serve TANF recipients had nearly evaporated. The response provides that clients from Hale and Pickens Counties can compensate for the loss of Tuscaloosa County as a source of participant referrals. However, data Stillman attached to its response indicates otherwise. According to Stillman's data, as of March 6, 2001, there were only 24 long-term TANF participants in both counties (4 in Hale and 20 in Pickens County). Stillman commented that "more than 75 eligible clients fit the current [WtW grant's] eligibility criteria to be served."

If there are 75 potential clients in Hale and Pickens counties, at least 51 (75 minus 24) or 68 percent, are not hard-to-serve TANF recipients. Consequently, it is very unlikely Stillman will satisfy grant requirements that no more than 30 percent of grant funds be spent on participants who are not among the hard-to-serve target group.

Finally, Stillman responded that "a twenty-five step process is used to place each eligible client on jobs." However, the statement was the only evidence we identified in the response that supported Stillman's involvement in helping 8 of the 30 participants we sampled find employment.

Stillman's response to our draft report has not caused us to alter our findings, conclusions or recommendations. Most significantly, the response does not diminish our concern over the escalating cost of serving fewer participants. As we discussed, even if revised placement goals are met, the average cost per placement will rise from $4,400 initially proposed to over $14,400.

EXHIBIT 1

COMPILATION OF WtW GRANT EXPENDITURES IN STILLMAN COLLEGE'S GENERAL LEDGER

Account Title	G/L 06/30/00	Auditor Adjustment	Adjusted Balance 06/30/00
Administrative Costs:			
Administrative Salaries	$125,315	$31,443	$93,872
Fringe Benefits	25,522	3,800	21,722
Total Admin. Costs	$150,837	$35,243	$115,594
Other Costs:			
Non-Administrative Salaries	$386,412	$11,920	$374,492
Fringe Benefits	72,700	912	71,788
Participant Subsidized	1,702		1,702
Travel	14,494		14,494
In-House Training Exp.	974		974
Office Supplies	10,112		10,112
Maintenance & Fuel	863		863
Inventory Supplies	325		325
Postage	74		74
Instructional Supplies	1,316		1,316
Utilities (includes phone)	8,147		8,147
Professional Services	41,587	10,653	30,934
Printing	3,133		3,133
Facilities Rental	6,899		6,899
Computer Systems	63,184	25,368	37,816
Telecommunications	20,847	2,220	18,627
Copiers	10,045		10,045
Furniture	25,359		25,359
Automobiles/Machinery	108,620	108,620	0
Instructional Equipment	631		631
Miscellaneous	2,002		2,002
Total Other Costs	$779,424	$159,693	$619,731
Total Charges to Grant	$930,261	$194,936	$735,325

Note: This listing is an unaudited compilation of expenditures coded as WtW grant costs in Stillman College's general ledger. Small discrepancies in totals are the result of rounding

EXHIBIT 2

BUDGETED EXPENDITURES FOR VARIOUS GRANTS STILLMAN COLLEGE ADMINISTERED JULY 1999 THROUGH JUNE 2000

individual amounts.

Grant Title	Budgeted Costs for 07/99 - 06/00	Percentage to the Total
Welfare-to-Work	$876,389	**26.8%**
DBE	35,870	
MARC Biomedical Research	154,213	
MBRS	437,718	
Construction - Health & Wellness	500,000	
National Youth Sports Program	72,300	
Minority Graduate Program	32,342	
Corporate Affairs - Mellon	100,000	
James Graham Brown Foundation	42,000	
Lilly HBCU	950,000	
Green Beverage	5,000	
UNCF Ford Service Learning Network Grant	6,000	
Humanities Endowment Mellon	56,375	
Total Budgeted Expenditures	$3,268,207	

SCHEDULE OF REIMBURSEMENTS TO THE EAST TUSCALOOSA FAMILY RESOURCE CENTER

Ref.	Description	Billed	Pmt. Rec'd Date	Stillman Check Number	Outstanding Amount From Paid Invoices	Billings Allowable Per Audit	Payments Allowable Per Audit	ETFRC Receipts
1	Security -	$650.00	06/04/99	87068		$0.00	$0.00	
2	Rent - 1st	650.00	06/04/99	87068		0.00	325.00	
3	Repair/Improv.	800.00	06/04/99	87068		400.00	400.00	
4	Supplies	339.53	09/29/99	88063		169.77	169.77	
5	Monitoring	72.00	08/26/99	87617		72.00	72.00	
6	Ut. - Phone Bill	192.18	08/26/99	87617		192.18	192.18	
7	Repair/Improv.	304.00	08/26/99	87617		152.00	152.00	
8	Supplies	36.72	08/26/99	87617		36.72	36.72	
9	Ut. - Water	57.15	08/26/99	87617		57.15	57.15	
10	Supplies	120.00	08/26/99	87617		60.00	60.00	
11	Supplies	206.61	08/26/99	87617		103.31	103.31	
12	Rent - 2nd	650.00	08/26/99	87617		325.00	325.00	
13	Terminex	95.99	08/26/99	87617		48.00	48.00	
14	Ut. - Electric	89.42	08/26/99	87617		89.42	89.42	
15	Maintenance	350.00	08/26/99	87617		175.00	175.00	
16	Ut. - Phone Bill	97.20	08/26/99	87617		97.20	97.20	
17	Supplies	131.61	08/26/99	87617		131.61	131.61	
18	Equipt. - t.v.	349.94	08/26/99	87617		188.97	188.97	
19	Repair/Improv.	212.03	08/26/99	87617		106.02	106.02	
20	Payroll 06/30/99	1,274.18	09/29/99	88063		1,274.18	1,274.18	
21	Payroll 7/15/99	1,834.08	09/29/99	88063		1,834.08	1,834.08	
22	Payroll 7/30/99	4,442.35	09/29/99	88063		4,442.35	4,442.35	
25	Supplies	182.44	08/26/99	87617		98.52	98.52	
26	Repair/Improv.	385.00	08/26/99	87617		385.00	385.00	
27	Ut - Electric	209.95	08/26/99	87617		209.95	209.95	
28	Ut - Phone Bill	100.61	08/26/99	87617		100.61	100.61	
29	Maintenance	350.00	08/26/99	87617		175.00	175.00	
30	Rent - 3rd	650.00	08/26/99	87617		325.00	325.00	
31	Payroll 08/13/99	3,037.19	08/26/99	87617		3,037.19	3,037.19	
32	Maintenance	350.00	09/29/99	88063		175.00	175.00	
33	Rent - 4th	650.00	09/29/99	88063		325.00	325.00	
34	Equipt. - b/u	440.00	03/15/00			440.00	440.00	
35	Equipt. - Table	49.99	09/29/99	88063		26.99	26.99	
36	Supplies	60.39	09/29/99	88063		30.20	30.20	
37	Payroll -	3,037.19	09/29/99	88063		3,037.19	3,037.19	
38	Ut. - Water	43.33	09/29/99	88063		43.33	43.33	
39	Monitoring	72.00	09/29/99	88063		72.00	72.00	
40	Repair/Improv.	158.88	11/10/99	88852		79.44	79.44	
41	Ut. - Electric	183.63	11/10/99	88852		183.63	183.63	
42	Equipt. - 2 fldg.	99.98	11/10/99	88852		53.99	53.99	
43	Child Abuse	280.00	11/10/99	88852		0.00	0.00	
44	Ut. - Phone Bill	92.00	11/10/99	88852		92.00	92.00	
45	Ut. - Phone Bill	39.90	11/10/99	88852		39.90	39.90	
46	Ut. - Electric	62.58	11/10/99	88852		0.00	0.00	
47	Payroll 9/05/99	3,383.46	11/10/99	88852		3,383.46	3,383.46	

SCHEDULE OF REIMBURSEMENTS TO THE EAST TUSCALOOSA FAMILY RESOURCE CENTER

Ref.	Description	Billed	Pmt. Rec'd. Date	Stillman Check Number	Outstanding Amount From Paid Invoices	Billings Allowable Per Audit	Payments Allowable Per Audit	ETFRC Receipts
48	Maintenance	$350.00	11/10/99	88852		$175.00	$175.00	
49	Rent - 5th	650.00	11/10/99	88852		325.00	325.00	
50	Payroll 9/26/99	6,633.48	11/10/99	88852		6,633.48	6,633.48	
51	Ut. - Water	23.47	11/10/99	88852		23.47	23.47	
52	Supplies	445.34	11/10/99	88852		240.49	240.49	
53	Equipt. -	637.50	03/15/00			637.50	637.50	
54	News ads	138.84	11/10/99	88852		138.84	138.84	
55	Ut. - Electric	96.01	01/25/00	190		96.01	96.01	
55.5	Travel	209.50	11/20/00	88852		209.50	209.50	
56	Supplies	28.53	1/25/00	190		28.53	28.53	
57	Ut. - Phone Bill	89.62	1/25/00	190		89.62	89.62	
58	Turner & Schoel	88.75	1/25/00	190		88.75	88.75	
59	Ut. - Water	87.67	1/25/00	190		87.67	87.67	
60	West Bldg.	16.11	1/25/00	190		8.06	8.06	
62	Payroll 10/1/99	4,191.44	1/25/00	188		4,191.44	4,191.44	
63	Payroll 10/23/99	4,191.44	3/28/00			4,191.44	4,191.44	
64	Maintenance	350.00	1/25/00	190		175.00	175.00	
65	Rent - 6th	650.00	1/25/00	190		325.00	325.00	
66	Ut. - Electric	74.13	1/25/00	190		74.13	74.13	
67	Ut. - Electric	40.62	1/25/00	190		0.00	0.00	
68	Ut. - Phone Bill	87.18	1/25/00	190		87.18	87.18	
69	Statewide	50.00	1/25/00	190		50.00	50.00	
70	Payroll 11/07/99	4,191.44	1/25/00	188		4,191.44	4,191.44	
71	Supplies	281.59	1/25/00	190		140.80	140.80	
72	Ut. - Gas	21.94	2/14/00			21.94	21.94	
73	Monitoring	72.00	2/14/00			72.00	72.00	
74	Ut. - Phone Bill	11.84	2/14/00			11.84	11.84	
75	Travel	134.50	2/14/00			134.50	134.50	
76	Maintenance	350.00	2/14/00			175.00	175.00	
77	Ut. - Water	44.16	2/14/00			44.16	44.16	
78	Travel	84.50				84.50	84.50	
79	Rent - 7th	650.00	2/14/00			325.00	325.00	
80	Payroll 11/22/99	3,614.33	2/14/00			3,614.33	3,614.33	
81	Ut. - Electric	20.16	12/07/99		8.03	20.16	12.13	
83	Ut. - Phone Bill	76.13	3/15/00			76.13	76.13	
84	Supplies	23.40	3/15/00			23.40	23.40	
85	Ut. - Phone Bill	67.30	3/28/00		26.92	67.30	40.38	
86	Payroll 12/12/99	5,421.50	3/28/00			5,421.50	5,421.50	
88	Rent 8th	650.00	3/28/00		260.00	325.00	325.00	
89	Supplies	106.47	3/15/00			114.98	114.98	
94	Maintenance	350.00	3/28/00		140.00	175.00	175.00	
95	Payroll	3,614.33	3/28//00			3,614.33	3,614.33	
96	Supplies	44.35	3/28/00		17.74	47.12	29.38	
97	Supplies	169.08	3/15/00			182.60	182.60	
98	Ut. - Phone Bill	78.99	3/15/00			78.99	78.99	

SCHEDULE OF REIMBURSEMENTS TO THE EAST TUSCALOOSA FAMILY RESOURCE CENTER

Ref.	Description	Billed	Pmt. Rec'd Date	Stillman Check Number	Outstanding Amount From Paid Invoices	Billings Allowable Per Audit	Payments Allowable Per Audit	ETFRC Receipts
99	Ut. - Electric	$55.19	3/28/00		$22.08	$55.19	$33.11	
101	Payroll	3,767.90	3/28/00			3,767.90	3,767.90	
103	Supplies	44.58	3/15/00			44.58	44.58	
104	Supplies	124.35	3/15/00			158.45	158.45	
105	Supplies	282.00	3/15/00			298.92	298.92	
106	Ut. - Gas	91.68	3/28/00		36.67	91.68	55.01	
107	Ut. - Water	23.18	3/28/00		9.27	23.18	13.91	
108	Rent - 9th	650.00	3/28/00		260.00	325.00	325.00	
110	Supplies	21.12	2/09/00			21.12	21.12	
111	Ut. - Electric	66.34	3/28/00		26.54	66.34	39.80	
112	Payroll	3,903.19	3/28/00			3,903.19	3,903.19	
113	Ut. - Phone Bill	82.25	3/28/00		32.90	82.25	49.35	
114	Supplies	122.35	3/28/00		48.94	132.14	83.20	
115	Payroll	3,352.98	3/28/00			3,352.98	3,352.98	
116	Ut. - Phone Bill	20.22	2/17/00		8.09	20.22	12.13	
117	Ut. - Water	24.50	3/28/00		9.80	24.50	14.70	
118	Ut. - Gas	114.84	3/28/00		45.94	114.84	68.90	
119	Monitoring	72.00	3/28/00		28.80	72.00	43.20	
120	Payroll	3,939.27	3/28/00			3,939.27	3,939.27	
			6/08/99	87068				2,100.00
			8/24/99	87617				7,880.04
			10/01/99	88065				15,540.23
			11/15/99	88852				12,751.06
			1/25/00	188				4,191.44
			1/25/00	189				4,191.44
			1/25/00	190				1,940.21
			2/14/00	1099				3,614.33
			2/14/00	1100				72.00
			2/14/00	1101				84.50
			2/14/00	1102				44.16
			2/14/00	1103				1,168.28
			3/15/00	1751				2,007.62
			3/28/00	1900				28,190.61
			3/28/00	1828				1,460.51
		$ 82,839.09			$981.72	$75,925.24	$75,603.52	$85,236.43

Total Cash	$85,236.43
Allowable	$75,603.52
Amount	$9,632.91

Note: Overpayments include duplicate payments by Stillman College (Item #32 for $350 and item #37 for $3,037.19)

EXHIBIT 4

TEXT OF STILLMAN COLLEGE'S RESPONSE TO THE DRAFT AUDIT REPORT

The complete text of Stillman College's response to the draft audit report follows this title page.