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Office of Inspector General—Office of Audit

**REPORT TO THE EMPLOYMENT
AND TRAINING ADMINISTRATION**



SUPERSTORM SANDY NATIONAL EMERGENCY GRANTS: ETA AWARDED FUNDS PROMPTLY, BUT COULD IMPROVE GRANT MODIFICATION AND ELIGIBILITY VERIFICATION PROCESSES

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BRIEFLY...

Highlights of Report Number 02-15-204-03-390, issued to the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

Superstorm Sandy struck the Northeast United States in late October 2012. It ranked among the most destructive storms to hit the Northeast in nearly a century. In response to the devastation, ETA awarded National Emergency Grants (NEGs) totaling \$72.9 million, to 5 states affected by Superstorm Sandy: New York (\$51.1 million), New Jersey (\$19.2 million), Rhode Island (\$1.5 million), Connecticut (\$.6 million), and West Virginia (\$.5 million). States used these funds to provide temporary employment on projects to assist with clean-up and restoration, as well as to deliver humanitarian assistance.

This report provides information about ETA's administration of Superstorm Sandy grants, and the grantees' stewardship of federal funds.

WHY OIG CONDUCTED THE AUDIT

Our audit objective was to answer the following question:

Did ETA properly administer NEGs for Superstorm Sandy?

READ THE FULL REPORT

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

<http://www.oig.dol.gov/public/reports/oa/2015/02-15-204-03-390.pdf>.

March 2015

SUPERSTORM SANDY NATIONAL EMERGENCY GRANTS: ETA AWARDED FUNDS PROMPTLY, BUT COULD IMPROVE GRANT MODIFICATION AND ELIGIBILITY VERIFICATION PROCESSES

WHAT OIG FOUND

Our audit found ETA properly administered the initial grant award process for Superstorm Sandy NEGs. ETA officials acted swiftly to review and approve Sandy disaster NEG requests. This allowed affected communities to hire participants to start clean-up and to provide humanitarian assistance. However, a 7-month delay in ETA's approving a modification request related to New Jersey's \$19.2 million NEG caused uncertainty about the grant's future among local project operators, which affected clean-up efforts. ETA officials acknowledged concerns regarding the modification process for NEGs and has revised its procedures to streamline the process.

ETA's policy to verify participant eligibility did not ensure participants were qualified for the program and were most in need of jobs. Sampled sub-grantees could not provide evidence to support program eligibility for more than one-third of the participants. We estimated \$7.8 million was paid to participants without evidence they were eligible for the program. The 3 sampled sub-grantees we visited were awarded a total of \$45.9 million and did not always expend or account for funds in accordance with federal and grant guidelines. We questioned costs of \$3.2 million due to inadequate financial reporting and problematic payroll records.

WHAT OIG RECOMMENDED

The OIG recommended the Assistant Secretary for Employment and Training track modification requests to determine if revised procedures address systemic problems that delay timely decisions on modification requests, and ensure the disaster NEG program serves its intended population. We also recommended the Assistant Secretary require grantees recover questioned costs of \$3,234,897, and ensure sub-grantees have controls in place to adequately account for costs.

ETA concurred with all the recommendations. In its response, ETA stated it undertook a review of its NEG modification process and identified areas to streamline. ETA is developing guidance on participant eligibility, and will follow up on the recovery of questioned costs. Also, ETA worked with other agencies to strengthen the Uniform Guidance including internal control and accounting practices, to ensure terms and conditions in the grantee's award must flow down to sub-grantees.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



March 26, 2015

Inspector General's Report

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The Workforce Investment Act of 1998 (WIA), Title I, Subtitle D, Section 173, authorizes funding for National Emergency Grants (NEGs). NEGs are discretionary awards by the Secretary of Labor that temporarily expand service capacity at the state and local levels in response to significant dislocation events. Superstorm Sandy struck in late October 2012, and was ranked among the most destructive storms to hit the Northeast United States in nearly a century. In response to the devastation, the Employment and Training Administration (ETA) awarded Disaster NEGs as of April 21, 2014, totaling \$72.9 million¹, to 5 states affected by Superstorm Sandy: New York (\$51.1 million), New Jersey (\$19.2 million), Rhode Island (\$1.5 million), Connecticut (\$.6 million), and West Virginia (\$.5 million). States used these funds to provide temporary employment on projects to assist with clean-up and restoration, as well as to deliver humanitarian assistance. We conducted an audit to answer the following question:

Did ETA properly administer NEGs for Superstorm Sandy?

We found ETA properly administered the initial grant award process for Superstorm Sandy NEGs. However, there were weaknesses in the grant modification process that affected clean-up efforts, and the policy to verify participant eligibility did not ensure individuals were qualified for the program and the most in need of jobs.

The scope of this audit covered \$69.4 million of disaster NEG awards to New York, New Jersey, Connecticut, Rhode Island, and West Virginia. We limited fieldwork to New York and New Jersey since they received 96 percent of grant funds. Our audit covered funds awarded and expended, and participants served as of December 31, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. See Appendix A for the complete scope of our work and the methodology behind our testing.

¹ Our audit scope covered \$69.4 million awarded to the States as of December 31, 2013.

RESULTS

Objective — Did ETA properly administer National Emergency Grants for Superstorm Sandy?

ETA properly administered the initial grant award process for Superstorm Sandy NEGs. However, ETA needs to improve the grant modification process so requests are approved in a timely manner without affecting services, and reinstate the policy to verify participant's self-certified eligibility. We estimate \$7.8 million was paid to participants without evidence of program eligibility, and an additional \$3.2 million is questioned.

A) ETA followed applicable federal regulations and agency policies when awarding Superstorm Sandy NEGs, but delays in approving a modification request for one state posed risks to local recovery efforts.

ETA followed applicable federal regulations and agency policies when awarding Superstorm Sandy Disaster grants and ETA officials acted swiftly to review and approve Sandy disaster NEG requests. Superstorm Sandy hit shore on October 29, 2012, and ETA approved awards to New York and New Jersey by November 2, 2012. For four of the five states, ETA awarded Sandy grants within two days of receiving applications. This allowed the affected communities to hire participants to start clean-up and restoration work, and to provide humanitarian assistance. Table 1 reflects ETA's approval time for Superstorm Sandy NEG awards:

Table 1: ETA's Approval of Sandy NEGs

State	Submission Date	ETA Approval Date	NEG Request Approval Time (days)
NJ	10/31/12	11/02/12	2
NY	11/01/12	11/02/12	1
CT	11/14/12	11/16/12	2
WV	12/14/12	12/28/12	14
RI	11/05/12	11/07/12	2

Source: NEG application history in NEG eSystem.

As part of the award process, ETA followed a checklist with criteria to rate applications. The criteria included such items as timeliness of submission, description of disaster and its impact, and reasonableness of funding request and proposed number of temporary hires. For modification requests, such as extending the period of performance or realigning their budget, ETA required grantees to explain the reasons for the changes.

While ETA used its NEG eSystem to track the application history for modifications, the system did not track e-mails and technical assistance provided by ETA to assist applicants in submitting acceptable modifications. In addition, the eSystem did not contain data points to identify patterns that might have aided ETA in identifying grantees early on that may have benefitted from additional technical assistance with submitting acceptable modifications. Table 2 reflects the number of months from states initial NEG modification request to ETA's approval.

Table 2: ETA Approval of Sandy NEG Modification Requests

State	Number of Modifications	Number of Months for Approval		
		Minimum	Maximum	Average
NY	4	0.7	3.3	1.9
NJ*	4	1.4	7.0	4.8
CT*	2	0.5	10.0	5.2
RI	5	0.2	0.9	0.5
WV	3	0.4	5.9	2.6

* ETA officials cited the state's lack of experience with NEG's for disasters as severe as Sandy was a factor in the delay.

In the case of one NEG, a 7-month delay caused uncertainty about the grant's future among local project operators, which affected clean-up efforts. ETA's handling of the New Jersey Department of Labor and Workforce Development's (New Jersey) modification request to extend the grant period from January 29, 2014, to December 31, 2014, indicated ETA did not sufficiently monitor how delays could adversely affect local NEG project operations. Key dates in that process were:

- June 25, 2013 – New Jersey initially submitted a request to ETA for a no-cost extension of its NEG from January 29, 2014, to December 31, 2014. Due to technical glitches in the NEG eSystem and incomplete information, the state had to withdraw and re-submit its request 15 times.
- November 20, 2013 – a New Jersey official alerted ETA the NEG was scheduled to end in 60 days. New Jersey's e-mail indicated ETA's delay in approving the no-cost extension created uncertainty among the NEG project operators about the project's future.
- January 2, 2014 – a New Jersey official notified ETA that NEG sub-recipients would not hire needed temporary workers until ETA officially approved the modification. This email suggested the delay would impact clean-up efforts.
- January 7, 2014 – New Jersey submitted an acceptable modification request.
- January 16, 2014 – New Jersey reported local operators had to give NEG participants two-week layoff notices because the grant was scheduled to end on January 31, 2014.
- January 21, 2014 – ETA approved New Jersey's no-cost extension, just eight days before the NEG was scheduled to end.

ETA's internal (unwritten) goal was to approve complete modification submissions within 30 days. Too often, grantees submitted incomplete modification requests that required withdrawal and re-submission. For example, one of New Jersey's re-submissions had an attachment that did not account for all work sites and positions, and another modification did not show whether positions were still active. ETA officials cited New Jersey's lack of experience in managing a NEG award for a disaster as severe as Sandy as one reason the grantee had to withdraw and re-submit its request multiple times.

ETA officials acknowledged concerns regarding the modification process for NEGs. As a result, in January 2014, subsequent to our audit period, ETA issued revised modification review procedures to regional staff, and on January 6, 2015, Training and Employment Guidance Letter 17-14 was issued to states. The revised procedure is intended to streamline the NEG modification process by requiring only information critical to the modification type being requested. In addition, the recently updated OMB Guidance for federal assistance includes a 30 calendar day timeline for processing budget revision modifications.

B) Grantees reported that they had achieved or were on target to achieve planned enrollments; however, we estimated that \$7.8 million was paid to participants where there was no evidence they were eligible for the program.

Grantees reported they had achieved or were on target to achieve the grant goal of enrolling 4,409 participants in temporary jobs. However, sampled sub-grantees could not provide evidence to support program eligibility for more than one-third of the participants. We estimated \$7.8 million² was paid to participants where there was no evidence they were eligible for the program.

As of March 31, 2014, the 5 states reported they had achieved or were on target to achieve the grant goal of enrolling 4,409 participants in temporary jobs. These funds provided temporary employment on projects to assist with clean-up and restoration, as well as to deliver humanitarian assistance. To qualify for temporary work in the disaster NEG program, federal guidance required an individual to be at least one of the following at enrollment: (1) a dislocated worker; 2) long-term unemployed (as defined by the state); or 3) out of work due to the disaster.

In its grant agreements with the New York State Department of Labor (New York) and New Jersey, ETA cited the catastrophic nature of the disaster (i.e., difficulty in locating personal documents) and said it would initially accept individuals' self-certification of eligibility. However consistent with current ETA guidance, grant agreements also stated, "grantees *should* have a system in place to verify eligibility once better data are

² We are 95 percent confident the value of questionable wages was \$7,811,286 plus or minus \$1,855,897.

available.” (Emphasis added.) Table 3 reflects the total participants reported served by states.

Table 3: Total Participants Reported Served As of 12/31/13 and 03/31/14

State	Planned	Reported Served As of December 31, 2013	Percent	Reported Served As of March 31, 2014	Percent	Grant End Date
NY	2,902	2,899	100%	2,892	100%	06/30/2014
NJ	1,310	1,008	77%	1,078	82%	12/31/2014
RI	100	99	99%	99	99%	12/31/2013
CT	44	43	98%	44	100%	06/30/2014
WV	53	31	58%	53	100%	06/30/2014
Total	4,409	4,080	93%	4,166	94%	

Source: ETA Form 9104 reports for quarters ending December 31, 2013, and March 31, 2014.

We sampled three sub-grantees that received the most funding: two in New York and one in New Jersey. As of December 31, 2013, the two sampled sub-grantee sites in New York exceeded the enrollment goal. New York City Small Business Services (SBS) reported serving 2,146 participants (planned 2,011) and Westchester-Putnam (New York) Local Workforce Investment Board (Westchester) reported serving 269 participants (planned 157 participants). The third sampled sub-grantee site, Essex County Training and Employment Division (Essex) in New Jersey reported serving 113 of the planned 157 participants. However, by the end of fieldwork in February 2014, Essex had exceeded its planned number of participants and served 183 participants.

Based on a review of 150 statistically sampled participants, we identified 55 participants (37 percent) at SBS and Westchester who had no evidence they were eligible for the Sandy disaster NEG program. This occurred in part because ETA officials did not require verification of a participant’s self-certified, pre-program employment status. The 55 sampled participants did not meet criteria for long-term unemployment and had no evidence beyond check-offs or case notes to support the participants’ self-certification they met one of the other two qualifying criteria, dislocated worker or out of work due to Superstorm Sandy. For example, we found a total of 16 participants that self-certified their only eligibility for the NEG program was that they were long-term unemployed. However, state wage records showed these 16 participants had earnings reported for them in the 27 weeks prior to beginning a NEG job.

In New Jersey, on the other hand, sub-grantees, such as Essex, used data from the state’s UI wage records to verify participants that self-certified eligibility were actually long-term unemployed. Essex began doing this after ETA monitors cited New Jersey for not verifying self-certified participant eligibility. Sampled participant files in Essex contained evidence to verify whether or not an individual that self-certified as long-term unemployed actually was. ETA officials knew of this monitoring report, but said the grant agreement stated New Jersey “should” have a system to verify self-certified eligibility. Because the agreement did not say

“must,” ETA officials said they “encouraged” verification, but did not require it. Consequently, ETA monitors were not required to ensure that sub-grantees verified self-certified employment status at enrollment.

ETA has shifted its policy on verifying self-certified eligibility under Disaster NEGs.

Since 2001, ETA has shifted its policy on verifying self-certified eligibility under Disaster NEGs. In 2001, when ETA awarded Disaster NEGs to help communities recover from the World Trade Center (WTC) disaster, the grant agreement stated, “States *shall* provide for regular eligibility verification, and shall take prompt action where an ineligible participant is identified.” When ETA awarded Disaster NEGs for Hurricane Katrina in 2005, ETA stated that grantees “*must* have a system in place to verify self-certified eligibility.” (Emphasis added.) For the Sandy NEG, ETA changed the requirement from “must” to “should.” ETA officials acknowledged that they changed this requirement, but did not explain why the changes occurred.

An OIG report covering NEGs issued in response to the WTC disaster found that none of the participant files contained verification of eligibility as required by the NEG agreement. ETA agreed with OIG recommendation to ensure any future awards, which include self-certification that eligibility verification is subsequently performed. In its response, ETA stated, “When ETA awards grants that allow for self-certification of eligibility, it will provide guidance to ensure regular eligibility verification is performed.”

An Estimated \$7.8 Million Was Paid To Participants without Evidence of Program Eligibility.

Based on our sample of 150 participants, we identified 55 participants at two sub-grantees in New York who were paid more than \$463,000 total, but had no evidence of program eligibility. We are 95 percent confident the value of questionable wages paid to participants that did not have evidence they were eligible for the program was \$7,811,286 plus or minus \$1,855,897.

OIG concluded that ETA’s decision to give disaster NEG grantees the option to verify self-certified pre-program employment status posed risks. Grantees may have served individuals that did not qualify for the program, displacing people most in need of jobs. SBS stated it initially screened nearly 1,600 individuals to fill 800 positions, showing demand for NEG jobs. As such, the potential existed that the program did not serve the intended population.

Approximately 12 Percent of Sampled Participants Reported They Were Unemployed Due To Superstorm Sandy.

Of the three sub-grantees we visited, only SBS reported having 18 participants who were eligible for the program because they had temporarily or permanently lost employment as a result of Superstorm Sandy. However, there was no evidence these 18 SBS participants lost jobs due to Superstorm Sandy. Shortly after ETA awarded disaster NEG funds to New York, SBS launched a recruitment drive to target workers

for NEG job opportunities in hard-hit areas by distributing flyers at disaster assistance centers, through local nonprofit organizations, and city agencies (such as the New York City Housing Authority and the Department of Youth and Community Development). New York created an online registry for anyone interested in Sandy-related work, and provided SBS with lists of and contact information for New York City residents that registered.

Participants Received UI Benefits While Enrolled In This Program.

The grant agreements state that generally a temporary job will disqualify an individual from receiving UI benefits to the extent that they exceed a state-defined earning level. Of the 150 sampled participants, 21 received UI benefits while in the program because participants did not follow sub-grantee's instructions to stop weekly UI claims as soon as they started to receive program wages, and SBS did not monitor UI benefit payments to participants. As a result, participants received inappropriate UI benefits in the amount of \$24,095 (20 participants from SBS received a total \$16,940 and 1 participant from Essex received \$7,155).

SBS stated it did not have access to UI benefit data. However, it had referred this benefit payment information to the New York Unemployment Insurance Division for review, adjudication, and recovery as appropriate. This condition also occurred in Essex because Essex had no written policies and procedures to verify if Superstorm Sandy NEG participants collected UI payments.

Site Observations

We visited six worksites to assess some of the damages caused by Superstorm Sandy and to obtain an understanding of the activities performed by NEG participants. Participants and staff that we talked with indicated the program helped meet the needs of people affected by the disaster. Their activities included rebuilding and clean-up efforts. We saw participants remove debris; use hand tools to cut through weeds, shrubs, and overgrowth; and operate wood chippers to cut branches and tree limbs. In addition, participant activities included informing residents on the availability of various assistance programs and how to work with their insurance companies, creating information technology applications to improve the rebuilding process, and performing administrative activities at the offices. Participants we interviewed were satisfied with their job experience.

C) We question \$3.2 million due to inaccurate financial reporting and problematic payroll records.

The 3 sampled sub-grantees we visited were awarded a total of \$45.9 million and did not always expend or account for funds in accordance with federal and grant guidelines. We found questioned costs of \$3,234,897 due to inadequate financial reporting and problematic payroll records. This was mainly due to sub-grantees not having adequate financial controls to properly allocate payroll and fringe benefit costs. Ninety-nine

percent of the questioned costs were from SBS. Table 4 is a summary of questioned costs.

Table 4: Summary of Questioned Costs

Description	Questioned Costs
SBS incorrectly charged health and supplemental benefits	\$2,459,635
SBS charged direct, indirect, and fringe benefit costs using budgeted rates	726,472
All three sampled sub-recipients had wages paid in excess of grant limitation	48,790
Total	\$3,234,897

I. Questioned Costs

SBS incorrectly charged health and supplemental benefits - \$2,459,635.

SBS charged the Superstorm Sandy NEG for health insurance and supplemental employee welfare benefits (dental and eye care) that participants were not eligible for and never received. According to the City of New York Department of Parks and Recreation (Parks) management staff, Parks NEG participants already had health care coverage because they received public assistance from the State of New York. This occurred because SBS officials initially believed that it was required to claim the full fringe benefits rate whether or not participants were eligible for health benefits. New York City's approved fringe benefit rate was stipulated in the cost allocation agreement between New York City Office of Management and Budget (OMB) and the U.S. Department of Health and Human Services, the cognizant agency. New York City's OMB-approved fixed civilian fringe benefit rate for Fiscal Year (FY) 2013 was 46 percent of all participant wages. The rate reflected pension, social security, health insurance, supplemental employee welfare benefits, workers compensation, unemployment insurance, and payroll tax.

The New York City benefits handbook states employees are eligible for health insurance if, "a. You work – on a regular schedule – at least 20 hours per week; and b. Your appointment is expected to last for more than six months." Based on these criteria, participants were not eligible for health insurance since their appointment was not to exceed six months and the benefits were never received. In addition, OMB Circular A-87, Attachment A, Section (C) (3) (a), states, "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." SBS agreed with the questioned costs and agreed to reimburse New York for health and supplemental employee welfare benefits costs.

SBS charged direct, indirect, and fringe benefit costs using budgeted rates - \$726,472

SBS did not have adequate controls to properly allocate personnel costs. SBS used the rates listed on the “NEG PS budget for July 2013 through June 30, 2014” to charge administrative costs of \$726,472 for direct, indirect, and fringe benefit costs for employees that split their time with other program activities. However, SBS did not make adjustments based on employees’ actual activity. SBS employees completed timesheets by entering the start and end time for the hours they worked each day, but did not specify which projects they worked on. Employees’ supervisors were supposed to determine the percentage of time to allocate to the various programs where employees worked.

SBS disagreed with the finding and said it used the Personnel Cost Allocation Tool (PCAT) that had passed prior reviews by New York and ETA. An SBS official stated, “At the end of each reporting month, SBS managers use PCAT to update the functional job description percentages of their staff to reflect actual activity for the reporting month.” However, SBS’s PCAT monthly reports had no evidence that employees’ time was charged on the basis of actual activities or hours worked. PCAT reports for SBS employees, who worked on multiple programs, showed the same time charges each month with the same percentages allocated to the same programs.

OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments³ Attachment B (8) (h) (OMB A-87), states:

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation...unless a statistical sampling system...or other substitute system has been approved by the cognizant Federal agency... (5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee... (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes...

³ SBS’s system to allocate personnel costs does not comply with revised guidance. Federal Register Vol. 78, No. 248, § 200.430 Compensation—personal services effective December 26, 2014, states, “(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that...(C) The non-Federal entity’s system of internal controls includes processes to review after-the-fact interim charges made to Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.”

All three sampled sub-grantees had wages paid in excess of grant limitation - \$48,790

Superstorm Sandy grants offered temporary disaster jobs with wage and time limits as established in the grant agreements. We found 56 participants at the three sub-grantees that received wages over the limit established by the grant agreement. We found wage overpayments of \$11,492 (SBS), \$9,367 (Westchester), and \$27,931 (Essex). Of these 56 participants, two participants exceeded the maximum amount of hours allowed. According to the Federal Register and the grant agreement, an individual participant on a disaster NEG project may be employed for a maximum of six months, or 1,040 hours, whichever is longer.

Overpayments occurred because sub-grantees did not have controls to ensure compliance with grant limits. Based on the Federal Register and the grant agreement between New York and its sub-grantees, the maximum level of wages paid to a participant was limited to \$12,000, excluding the cost of fringe benefits. At SBS, we found 22 participants that exceeded the wage threshold of \$12,000 by a total of \$11,492. In Westchester, we found 3 participants who exceeded the wage limit by a total of \$9,367. Westchester agreed with the overpayment for two of the three participants and stated it will deduct the amounts from the next claim. However, no support was provided for the remaining participant who was overpaid by \$3,309. New Jersey's grant agreement with DOL established a threshold of \$24,000. In Essex, we found 10 participants who exceeded this wage limit by \$27,931. As a result, we question \$48,790 of excess wages paid to participants at the 3 sampled sites.

II. Problematic Payroll Records

SBS was unable to provide support for the number of participants enrolled and total wages paid to participants.

SBS provided two separate lists of participants enrolled and total wages paid as of December 31, 2013. However, neither list reconciled to the number of participants enrolled nor amount of total wages paid reported. The first list showed 21 less participants enrolled than the 2,146 reported and total wages that were \$1,058,142 higher than the \$17,114,935 that SBS reported to New York. The second list did not provide enough information to determine the number of participants reported but had the same wages as reported to New York as of December 31, 2013.

Using the initial list that SBS provided, we sampled the first 10 participants from our statistical sample of 130 participants and compared the wages reported to participants' final pay stubs. We found that 6 of the 10 participants had different amounts. Of the six participants, five participants had wages on their final paystub lower than the gross wages in the participant wage list, and one participant had wages on her final paystub that were higher than the participant wage list. Subsequently, SBS provided an updated participant wage list for the period ending November 30, 2013, and an accrued wage amount through December 2013. Wages reported on this second list matched SBS expenditures report to New York, for the period ending December 31, 2013. However,

we found that the wage data in the updated list still did not match participants' final paystub gross wages for 7 of the first 10 participants in our statistical sample.

Westchester and Essex participants' payroll records were inaccurate and unreliable.

For Westchester and Essex, we found differences between hours paid and actual hours supported by timesheets and amounts claimed by local agencies and amounts due to participants. Sub-grantees said this occurred for two reasons. First, there was a timing difference between the estimated accruals and actual expenditures as the program was ongoing during our audit. Second, there were clerical errors that sub-grantees subsequently corrected. As a result, sub-grantees were unable to provide an accurate amount of participant wages paid to participants. According to ETA's NEG Reporting Technical Assistance Guide, participant wages are the total accrued expenditures for wages paid to eligible grant participants employed in temporary jobs provided by the disaster NEG.

In Westchester, we randomly selected 13 out of 269 participants. We noted four participants had payroll discrepancies relating to hours paid and the actual hours supported by timesheets, and amounts claimed by sub-recipients and amounts due to participants. While Westchester officials said they had fiscal procedures which require reviewing financial information submitted for payment by sub-recipients to ensure accuracy and completeness, they could not provide written support.

In Essex, we randomly selected 7 out of 113 participants. We found all seven participants had discrepancies relating to hours paid and the actual hours supported by timesheets, and amounts claimed by sub-recipients and amounts due to participants. In addition, we noted five participants with differences between amounts claimed by municipalities and amounts per payroll records, and two participants for which payroll records were not provided. Essex County's fiscal procedures required reviewing financial information submitted for payment by sub-recipients to ensure accuracy and completeness. However, based on the errors we found, we concluded that the review, if performed, was inadequate. Subsequent to our audit, New Jersey performed an internal audit of Essex County whereby New Jersey found additional questioned costs.

III. Westchester Did Not Maintain Adequate Financial Controls for Managing Superstorm Sandy Grant Funds

Westchester did not fully comply with federal regulations and grant agreements because it did not have adequate financial controls for managing Superstorm Sandy funds. We found insufficient support to reconcile expenses to the general ledger. Westchester attributed this to delays in updating sub-recipient claims in the general ledger due to staffing. Westchester made numerous attempts to reconcile expenses, but was unable to do so. Westchester received grant funds of \$3,640,903 and drew funds of \$3,097,326 from March 25, 2013, through December 31, 2013, to reimburse sub-recipients for expenditures related to Superstorm Sandy. However, Westchester's

general ledger showed it only reimbursed sub-recipients \$2,257,248 for this period. Consequently, Westchester drew down \$840,078 more than it reimbursed sub-recipients. Federal regulations at 31 CFR 205.33 state, “The timing and amount of funds transfers must be as close as is administratively feasible to a state’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.” Furthermore, Westchester did not provide related canceled checks, and/or evidence to payroll and payments to vendors. As a result, we could not rely on Westchester’s financial data, and ensure the accuracy of the expenses that they reported to New York.

Based on our results in Westchester, New York stated it plans to perform additional follow-up reviews, as needed, and has discussed the problems OIG identified with the Westchester Local Workforce Investment Area (LWIA) and county treasurer. New York also reported it withheld additional payments to Westchester from July 23, 2014, until August 27, 2014, when the LWIA provided the requested documentation on cash disbursements.

RECOMMENDATIONS

We recommend the Assistant Secretary for Employment and Training:

1. Track modification requests to determine if the revised modification review procedures address systemic problems that delay timely decisions on NEG modification requests.
2. Reinstate the policy to require disaster NEG grantees to have systems in place to review eligibility determinations once needed documentation becomes available.

We also recommend the Assistant Secretary for Employment and Training require grantees to:

3. Recover \$3,234,897 (\$3,197,599 for SBS, \$9,367 for Westchester, and \$27,931 for Essex) of funds due to unallowable costs, inaccurate financial reporting, and problematic payroll records.
4. Ensure sub-grantees have controls in place to adequately account for costs and draw-down funds.

ETA’S RESPONSE

The Assistant Secretary for Employment and Training concurred with our recommendations. In its response, ETA stated it undertook a review of its NEG modification process and identified areas to streamline. ETA is developing guidance on participant eligibility, and will follow up on the recovery of questioned costs. Also, ETA worked with other agencies to strengthen the Uniform Guidance including internal

control and accounting practices, to ensure terms and conditions in the grantee's award must flow down to sub-grantees. ETA's response to our draft report is included in its entirety in Appendix C.

We appreciate the cooperation and courtesies that ETA, New York, and New Jersey personnel extended to the Office of Inspector General during this audit. OIG personnel who made major contributions to this report are listed in Appendix D.



Elliot P. Lewis
Assistant Inspector General
for Audit

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Appendices

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Objective, Scope, Methodology, and Criteria

Objective

Did ETA properly administer NEGs for Superstorm Sandy?

Scope

The audit covered Disaster NEGs for \$69,350,158 awarded by ETA to 5 states affected by Sandy: New York (\$51,106,551), New Jersey (\$15,591,400), Rhode Island (\$1,500,000), Connecticut (\$610,207), and West Virginia (\$542,000). The grants and applicable modifications were approved between November 2, 2012, and December 17, 2013. We limited fieldwork to NY and NJ since they received 96 percent of grant funds. Our audit covered funds awarded, expended, and participants served as of December 31, 2013.

We performed work at ETA national and Boston regional offices; New York and New Jersey; and sub-grantees SBS, Westchester, and Essex. At the three sub-grantees, we reviewed financial and performance data reported to state workforce agencies. We judgmentally selected financial transactions and statistically selected participant files for review. We also reviewed ETA's paperless NEG eSystem, which handled the submission and review process for initial applications and modifications.

In addition, we visited six local worksites to observe NEG participants at work. The worksites were operated by sub-recipients – local agencies that received part of sub-grantees' NEG funds. Sub-grantees generally had memorandums of agreement or contracts with sub-recipients that described the type of work participants would perform, payment arrangements, reporting requirements and monitoring, and other procedures, as appropriate.

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 accomplish our audit objective, we obtained an understanding of Disaster NEGs awarded by ETA for Superstorm Sandy. We also gained an understanding of how grantee and sub-recipients expended funds to achieve program goals. We reviewed the Superstorm Sandy NEG agreements between ETA and New York and New Jersey, Federal laws and regulations, and ETA's, grantees', and sub-grantees' policies and procedures. We also reviewed ETA's paperless NEG eSystem, which handled the

submission and review process for initial applications and modifications. We interviewed ETA National and Regional Office officials, and state and local grantee and sub-recipient management and staff; and analyzed both performance and financial information reported to ETA as of December 31, 2013.

We selected a statistical sample of Sandy NEG participants from two New York (SBS and Westchester) sub-grantees and one New Jersey sub-grantee (Essex) and reviewed participant information to test eligibility and other performance-related attributes. The audit universe, based on information provided by New York and New Jersey, consisted of 2,528 participants with a total of \$20.2 million in wages. We used a single stage risk-based sampling approach. We statistically selected sampled participants from each of these sub-grantees using a 95 percent confidence level and +/- 7 percent sampling precision, resulting in a sample of 150 participants across all 3 sub-grantees for testing. Table 5 shows our sample of 150 participants by sub-grantee.

Table 5: Audit Sample Composition

Risk Level	Sub-grantees	Superstorm Sandy National Emergency Grant Participants and Wages		
		Participants	Wages	Sample Size
Moderate	Essex	113	\$1,564,025	7
Moderate	SBS	2,146	17,114,935	130
Moderate	Westchester	269	1,562,165	13
Total		2,528	\$20,241,125	150

We performed a data reliability assessment to ensure we had complete and accurate grant expenditure and performance data. We relied on computer-generated data from New York and New Jersey, and three sub-grantees (SBS, Essex, and Westchester). We compared participant and wage data provided by the three sub-grantees with information they reported to their respective states. New York and New Jersey reported financial and performance information to ETA on their 9130 and 9104 forms. We reviewed states' 9130 and 9104 reports filed with ETA for the quarter ending December 31, 2013. We determined the data to be sufficiently reliable for selecting our sample of participants enrolled in the NEG program.

In planning and performing our audit, we considered whether internal controls significant to the audit were properly designed and placed in operation. This included review of ETA policies related to awarding Disaster NEGs and two grantees' and three sub-grantees' internal controls related to administering Sandy NEG funds. We confirmed our understanding of these controls and procedures through interviews with ETA National and Regional Office officials, grantee and sub-grantee officials and staff, and review of participant files, payroll records, and related documents. Our consideration of these internal controls would not necessarily disclose all matters that might be significant deficiencies. Because of inherent limitations in internal controls, misstatements or noncompliance may nevertheless occur and not be detected.

We conducted site visits at ETA's National Office (including the Office of National Response), New York, New Jersey, and three sub-grantee locations (SBS, Westchester and Essex, and phone interviews with ETA Region One officials. The 3 sampled

sub-grantees were awarded a total of \$45,878,395: SBS (\$38,694,572), Westchester (\$3,640,903),⁴ and Essex (\$3,542,920). We reviewed a total of \$1,329,215 spent by the 3 sub-grantees, as follows: SBS (\$544,347), Westchester (\$394,851), and Essex (\$390,017).

We also visited six local worksite projects to talk with Sandy NEG participants and staff, and to observe activities in order to verify the work was related to Sandy clean-up and recovery or humanitarian assistance. We visited six worksites to assess some of the damage caused by Superstorm Sandy and to obtain an understanding of the activities performed by NEG participants. In New York, we visited Bayswater Park, New York City Department of Buildings, Yonkers Wastewater Treatment Plant, and Glen Island Park. In New Jersey, we visited the Borough of Union Beach and the Gateway Church of Christ.

Criteria

We used the following criteria to accomplish our audit:

- Workforce Investment Act of 1998. Section 173. National Emergency Grant
- Workforce Investment Act of 1998. 20 CFR Part 652 et al. Final Rules. (August 11, 2000) Part 671- National Emergency Grants for Dislocated Workers.
- Employment and Training Administration. Workforce Investment Act: National Emergency Grants—Application. Procedures. Notice of final guidelines for grant applications. *Federal Register*. April 27, 2004.
- OMB Circular A-87 – *Cost Principles for State, Local, and Indian Tribal Governments*
- 29 CFR §97.20 – Standards for Financial Management Systems
- 31 CFR – Part 205 – Rules and Procedures for Efficient Federal-State Funds Transfers
- Training and Employment Notice (TEN) 32-10. *Revised National Emergency Grant Application Submission and Review Process*. Employment and Training Administration. March 30, 2011.

⁴ Subsequent to our audit on August 29, 2014, New York increased the Superstorm Sandy NEG award to Westchester to \$7,381,859.

- National Emergency Grants Application Checklists and Guidebooks. Employment and Training Administration.
- National Emergency Grant Modification Checklist
- National Emergency Grant Modification Checklist Guidebook (1/23/12)
- ETA Superstorm Sandy Grant Agreements with New York (EM-23958-13-60-A-36/EM23958MGO and EM-23958-13-60-A-36/EM23958OLO) and New Jersey (EM-23597-13-60-A-34)

Acronyms and Abbreviations

DOL	Department of Labor
Essex	Essex County Training and Employment Division
ETA	Employment and Training Administration
LWIA	Local Workforce Investment Area
NEGs	National Emergency Grants
New Jersey	New Jersey Department of Labor and Workforce Development
New York	New York State Department of Labor
OIG	Office of Inspector General
OMB	Office of Management and Budget
SBS	New York City Small Business Services
UI	Unemployment Insurance
Westchester	Westchester-Putnam Local Workforce Investment Board
WIA	The Workforce Investment Act of 1998

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ETA Response to Draft Report

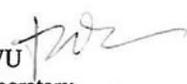
U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210



MAR 20 2015

MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

FROM: PORTIA WU 
Assistant Secretary
for Employment and Training

SUBJECT: Response to the Office of the Inspector General's Superstorm
Sandy National Emergency Grants Audit Draft Report, Report No.
02-15-204-03-390

Thank you for the opportunity to comment on the draft report resulting from the Office of the Inspector General's (OIG's) audit of the Employment and Training Administration's (ETA's) Superstorm Sandy National Emergency Grants (NEGs), Report No. 02-15-204-03-390. ETA appreciates being able to provide feedback before the final report is completed and issued.

ETA would also like to thank the OIG for their acknowledgement in the draft report that the initial grant award process was properly administered for all of the Superstorm Sandy NEGs and that ETA acted swiftly to review and approve these applications. ETA places a high priority on providing funds expediently to states that have experienced an eligible disaster, so the clean-up and community healing process can commence without delay. ETA takes this responsibility seriously and has dedicated significant resources to ensuring that NEG applications are not only reviewed, approved, and awarded quickly, but are done so in accordance with applicable statute, regulations, and policy.

ETA's response to each of the recommendations provided in the draft report follows:

OIG Recommendation #1: Track modification requests to determine if the revised modification review procedures address systemic problems that delay timely decision on NEG modification requests.

Response: ETA identified concerns with the NEG modification process prior to this audit being conducted. As a result, ETA undertook a thorough review of its NEG modification process and identified areas it could streamline to make it not only easier for

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grantees to submit acceptable modification requests, but also to speed the review and approval of modification requests.¹ The revised NEG modification process was announced to the grantee community via Training and Employment Guidance Letter 17-14, *National Emergency Grant Revised Modification Process*, on January 6, 2015 (<http://wdr.doleta.gov/directives/attach/tegl/TEGL-17-14.pdf>). As part of a continuous improvement process, ETA will track the impact of this change and will continue to make improvements to the process, as necessary.

OIG Recommendation #2: To ensure the disaster NEG program serves its intended population, reinstate the policy to require disaster NEG grantees have systems in place to review eligibility determinations once needed documentation becomes available.

Response: ETA is in the process of promulgating regulations and developing operating instructions and other guidance as part of its implementation of the Workforce Innovation and Opportunity Act (WIOA) that will address participant eligibility. Participant eligibility determinations is an issue that cuts across all of ETA's programs, and for NEGs, intersects significantly with the Dislocated Worker formula program.

Anticipated performance reporting requirements under WIOA will include collection of individual participant information used to determine eligibility for this and other programs. The associated data validation requirements ETA will issue for its programs, to verify performance outcomes for the programs under WIOA, including disaster grants, will include the necessary acceptable documentation required about the participants, and will take into account the level of acceptable documentation necessary to verify eligibility for the program(s). It is important to recognize the reality that, in disaster situations, documents that are normally used to verify program eligibility could have been lost or destroyed in the disaster event.

OIG Recommendation #3: Recover \$3,234,897 (\$3,197,599 for SBS, \$9,367 for Westchester, and \$27,931 for Essex) of funds due to unallowable costs, inaccurate financial reporting and problematic payroll records.

Response: This recommendation will be forwarded to ETA's Audit Resolution Unit in the Office of Grants Management's Division of Policy Review and Resolution for action. Initial and final determinations will be issued according to the process laid out in 20 CFR 667.500.

OIG Recommendation #4: Ensure sub-grantees have controls in place to adequately charge expenses to NEGs and draw-down funds.

¹ ETA continues to disagree with the methodology that the OIG used in this report to calculate the amount of time it takes to approve modification requests (as the methodology does not take into account the grantee's responsibility to provide accurate information in a timely manner to enable a modification request to be executed within a reasonable amount of time.)

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Response: Through its participation in the Council of Financial Assistance Reform (COFAR), ETA was able to work with other agencies across the Federal government to strengthen the language contained in the Uniform Guidance around this issue. The Uniform Guidance makes it clear that the terms and conditions contained in the Recipient's (Grantee's) award must flow down to any Sub-Recipients (Sub-Grantees), which include internal control and accounting practices. ETA began the process of providing training on the Uniform Guidance to its grantees the week of March 9, 2015, and will be providing training to ETA grantees in each of ETA's six regions throughout March and April of 2015.

If you have questions concerning this document, please contact Laura P. Watson, Associate Deputy Administrator of the Office of Management and Administrative Services at (202) 693-3333.

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Appendix D

Acknowledgements

Key contributors to this report were Mark Schwartz, Cardelia Tsoi, Susan Rosenblum, Eliacim Nieves-Perez, Eric Rann, Theodore Lawson, Ronald Larry, Reza Noorani, and Mary Lou Casazza.

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