



September 29, 2026

MEMORANDUM FOR: MAREK LACO
Acting Assistant Secretary
for Employment and Training

A handwritten signature in blue ink that reads "Laura B. Nicolosi".

FROM: LAURA B. NICOLOSI
Assistant Inspector General
for Audit

SUBJECT: **Alert Memorandum:** Closure of the Minnesota Grant
Audit Due to Data Not Provided by the Minnesota
Department of Employment and Economic
Development,
Report Number: 02-26-002-03-391

The purpose of this memorandum is to alert the Employment and Training Administration (ETA) to an urgent concern regarding receiving data from the Minnesota Department of Employment and Economic Development (DEED) for grants awarded by ETA. Specifically, as of the issuance of this memorandum, DEED has not provided participant-level data repeatedly requested by the U.S. Department of Labor, Office of Inspector General (OIG) for 26 participant-focused grants totaling over \$210 million (see Exhibit 1, Table 1). By not providing this data to the OIG, DEED is not in compliance with federal regulations. As such, we are questioning the \$210 million as unsupported costs and closing this audit. However, the issuance of this alert memorandum does not preclude the OIG from reopening this audit should the requested data be provided in the future.

In addition, we questioned the employer-focused grant for the Fidelity Bonding Demonstration Grant Program¹ in the amount of \$31,871 due to DEED's failure to maintain documentation supporting eligibility of participants served under the program (see Exhibit 2, Table 5).

¹ See Federal Award Identification Number PE362172160A27 in Table 2.

Background

On March 26, 2026, the OIG notified DEED that, as part of our oversight responsibilities under the Inspector General Act of 1978, as amended, we were initiating an audit to determine if ETA ensured that Minnesota grant recipients accurately reported participants' enrollment, services, and outcomes in accordance with federal requirements. The scope of our audit included 48 active grants from October 1, 2023, through April 1, 2026. These grants totaled approximately \$253 million (see Exhibit 1) and consisted of:

- 26 participant-focused grants totaling approximately \$210.9 million (see Table 1),
- 9 employer-focused grants totaling approximately \$2.5 million (see Table 2), and
- 13 system-focused grants totaling approximately \$40.1 million (see Table 3).

These grant funds were intended to help improve job opportunities, support skill and credential development, boost earnings and financial independence, connect employers with skilled workers, and protect the rights of U.S. workers.

In April 2026, the OIG initiated this audit to conduct a comprehensive review of how DEED used federal grant funds to strengthen Minnesota's workforce and support both workers and employers across the state. We requested data pertaining to 35 grants (26 participant-focused grants and 9 employer-focused grants). In response to our request, DEED provided data for the 9 employer-focused grants; however, DEED has not provided any of the requested data for the 26 participant-focused grants, despite numerous requests over nearly 4 months.² We had not yet requested data for the system-focused grants. Our testing of the 13 system-focused grants and the remaining 8 employer-focused grants was contingent upon receiving data from the participant-focused grants, as our audit approach required a complete dataset across all grant categories before testing could proceed.

The requested data is necessary to verify whether DEED accurately reported on program enrollment, participant eligibility, services provided, and outcomes—including credential attainment, employment, and wages. While DEED's failure to provide the participant-focused data does not, by itself, establish that over \$210 million was misspent (see Exhibit 2, Table 5), it raises significant concerns regarding its compliance with grant requirements and its stewardship of federal

² The OIG clearly communicated, and DEED is aware of, the OIG's well-established legal authority to obtain the data under the Inspector General Act of 1978, as amended. Despite this, DEED attempted to negotiate a data sharing agreement to condition the provision of information it was required to disclose to the OIG by including additional requirements unsupported by law.

funds. Without this data, the OIG cannot determine whether the grants achieved their intended purposes or whether the reported results were complete, accurate, and supported. Given the magnitude of the funding involved and the continued lack of cooperation, the OIG has determined that this matter warrants ETA's immediate attention.

The OIG did not perform this limited work under generally accepted government auditing standards due to the extensive limitations imposed by DEED; however, we followed our internal procedures to ensure independence, due professional care, quality assurance, and the accuracy of the information presented. This memorandum provides additional details regarding our results and associated recommendations.

DEED Has Not Provided Data Needed to Validate Outcomes Reported to ETA for 26 Participant-Focused Grants Totaling Over \$210 Million

Since the OIG's initial data request in April 2026, DEED has failed to provide the requested participant-focused grant data in accordance with federal requirements. DEED officials stated they wanted to confirm our authority and ensure the data is protected. In response, we explained our authority under the Inspector General Act of 1978, as amended, as well as our data protection protocols. As of the date of this memorandum, we have not received the requested data. Because DEED has not provided the requested data, it cannot demonstrate the accuracy of the reported participant-level data for 26 grants totaling over \$210 million (see Table 1).

Federal law³ authorizes Inspectors General and other federal representatives to access any recipient or subrecipient data pertinent to a federal award under their jurisdiction. This authority also includes an Inspector General's timely access to all records available to its establishment and recipient personnel for interviews and discussions related to the data or award. In addition, 5 U.S.C. § 406(a)(3) specifically authorizes an Inspector General to request information or assistance needed to carry out its responsibilities from a federal, state, or local governmental agency.

Timeline of Data Request

On March 26, 2026, the OIG notified DEED of our intent to audit all active ETA grant awards received by DEED from October 1, 2023, to April 1, 2026. During our initial meeting with DEED, held on April 13, 2026, we communicated our plans to analyze participant data to validate outcomes reported to ETA. Following that meeting, on April 23, 2026, we requested the necessary participant data to verify what DEED had reported to ETA for the 26 participant-focused grants.

³ 5 U.S.C. § 406, 29 U.S.C. § 3245(c), and 2 C.F.R. § 200.337

DEED has not provided any of the requested data for the 26 participant-focused grants it was awarded. DEED officials have attributed the delay to authority, privacy, and data-sharing concerns, as previously mentioned. Specifically, DEED requested that the OIG provide the statutory or regulatory authority for each category of requested personally identifiable information. To alleviate these concerns, we explained our authority under the Inspector General Act of 1978, as amended, and the OIG's adherence to federal information privacy law and data protection protocols to DEED on May 20, 2026.

The OIG contacted ETA on May 27, 2026, and requested the agency's assistance in obtaining the necessary data from DEED. ETA officials agreed to facilitate DEED's submission of the data without requiring a Data Sharing Agreement. Despite ETA's involvement, DEED still did not provide the requested data. As a result, the OIG remained unable to obtain the data necessary to conduct its planned audit.

After multiple requests from the OIG, DEED provided us with a draft Data Sharing Agreement that would satisfy their concerns on June 25, 2026, and the OIG provided feedback to DEED on July 14, 2026, indicating its readiness to receive the data. On July 24, 2026, DEED responded with another round of edits and questions rather than providing a finalized agreement and the requested data. As of this memorandum's issuance, DEED has yet to provide a final signed Data Sharing Agreement or any of the requested data. A data-sharing process is intended to protect personally identifiable information and should facilitate secure access. However, it is not required under the Inspector General Act of 1978, as amended, or any other federal law, and accordingly it may not substantially delay or prevent access that federal regulations require.

Because DEED has not provided the requested data, we are unable to proceed with our audit. As a result, we question the use of over \$210 million in ETA participant-focused grant funds as unsupported costs, as DEED did not provide the data needed to verify grant funds were used as intended. This data is required to determine whether:

- reported participants existed and were eligible for the programs,
- participant totals reconciled to amounts reported to ETA,
- participants received the training and services reported,
- credentials and employment outcomes were supported,
- reported wages were accurate,
- subrecipients properly documented program activity, and
- grant expenditures produced the results presented to ETA.

Federal regulation 2 C.F.R. § 200.339 authorizes ETA to impose specific conditions and take enforcement actions in response to grant administration concerns, including withholding payments, disallowing costs, suspending or terminating awards, or withholding future federal funding.

Prior State Findings Support the Need for Immediate Federal Intervention

In 2025, Minnesota’s Office of the Legislative Auditor issued a report detailing its review of state grant programs.⁴ The state review found, among other things, that:

- certain workforce programs lacked meaningful and measurable performance goals,
- DEED had not completed a legally required analysis of workforce program impacts,
- DEED collected only about one-half of grant recipient progress reports according to the schedules established in grant agreements,
- DEED paid at least \$5 million to grant recipients that had past-due progress reports,
- required monitoring was not always timely, and
- many grant closeout evaluations were not completed or lacked required information.

Although the state review only examined state grant programs and did not include federally funded grants, it found significant weaknesses with DEED’s overall management of workforce grant programs. DEED’s prior grant management issues and its continued failure to provide federally required data elevate the risk that inaccurate reporting, unsupported activity, or improper use of federal funds could remain undetected.

DEED Could Not Support Eligibility for Fidelity Bonding Program Participants

During the audit period, DEED received \$31,871 in employer-focused grant funds to administer the Fidelity Bonding Program. This program helps people who have been involved with the criminal justice system, including those affected by drug addiction, obtain jobs. It does this by giving employers fidelity bonds that protect them when they hire these individuals. DEED did not maintain the required documentation to support reported outcomes for this specific program. As a result, we question the entire grant amount of \$31,871.

We reviewed the universe of 23 bond requests for this grant. We requested documentation supporting eligibility for all 23 bonds to ensure fidelity grant funds

⁴ State of Minnesota, Office of the Legislative Auditor, 2025 Evaluation Report of the Department of Employment and Economic Development Grants Management (March 2025), available at: <https://www.auditor.leg.state.mn.us/ped/pedrep/2025-deed-grants-management.pdf>

were used as intended. DEED stated that it did not maintain supporting documentation for those requests. According to DEED officials, information was obtained directly from employers, but DEED did not routinely create or retain:

- participant intake forms,
- eligibility documentation,
- participant case files,
- employment verification,
- worksheets or system screenshots,
- system audit logs, or
- comparable evidence supporting the bond requests.

Consequently, DEED could not demonstrate that the 23 bonds provided individuals with significant barriers a pathway into employment. Federal grant compliance requirements in 2 C.F.R. Part 200 require recipients to maintain records that sufficiently identify the expenditure of federal funds, and all records must be supported by source documentation. In addition, this guidance states that financial and program records generally must be retained for at least 3 years after submission of the final expenditure report unless a longer period is required by the awarding agency.

DEED did not establish a standardized process or system for collecting, verifying, and retaining the information provided by employers. Instead, DEED relied on information obtained during the employer-request process without preserving evidence for participants' eligibility, employment, wages, or other required information.

Conclusion

DEED's failure to support more than \$210 million in participant-focused grant activity identified to date has limited the OIG's ability to ensure grant recipients accurately reported participants' enrollment, services, and outcomes in accordance with federal requirements. Because we were unable to complete testing, the full extent of unsupported activity remains unknown. As such, there is a significant risk that inaccurate reporting, unsupported activity, or improper use of ETA funds could go undetected. Further compounding this issue is DEED's inability to support participants' eligibility and outcomes for the Fidelity Bonding Program. These concerns are heightened by previous findings reported by state auditors addressing issues with DEED's grant management controls.

It is important for ETA to work with DEED to obtain the requested data in support of federal requirements and award terms and to apply appropriate corrective or enforcement measures if DEED does not promptly provide complete and reliable information. Due to the lack of data at this time, the OIG is closing this audit. However, the issuance of this alert memorandum does not preclude the OIG from

reinitiating an audit of these grants should the requested data be provided in the future.

Recommendations

We recommend the Assistant Secretary for Employment and Training:

1. Issue a formal determination of noncompliance and take applicable actions outlined in federal regulations.
2. Remedy the \$210,866,865 in grant funds associated with the 26 participant-focused grants by verifying the supportability, allowability, and accuracy of the participant data provided.
3. Remedy the \$31,871 in grant funds associated with the Fidelity Bonding Demonstration Grant.
4. Communicate to the Minnesota Department of Employment and Economic Development the expectation that they cooperate fully with OIG audits, by providing timely and complete access to requested information.

Analysis of Agency's Comments

In response to a draft of this alert memorandum, ETA agreed with our four recommendations. ETA officials also stated that they held conversations with senior DEED leadership on the issue and will continue discussions until resolution on providing complete access to requested information. The agency's response to the draft alert memorandum is included in its entirety in the Attachment.

Exhibit 1: DEED Award Summary

This exhibit lists the 48 DEED grants active between October 1, 2023, and April 1, 2026. The grants are organized by their focus area: participant, employer, and system. Each grant listed includes its Federal Award Identification Number (FAIN), Project Title, Period of Performance (POP) begin and end dates, and total grant amount.

Table 1: Participant-Focused Grants

FAIN	Project Title	POP Begin Date	POP End Date	Total Grant Amount
23A55AT000040	PY 2023 WIOA Adult Program Activities	7/1/2023	6/30/2026	\$8,120,707.00
23A55AW000006	PY 2023 WIOA Dislocated Worker Program	7/1/2023	6/30/2026	\$8,644,757.00
23A55AY000047	PY 2023 WIOA Youth Activities	4/1/2023	6/30/2026	\$9,597,650.00
23A55TA000033	FY-23 Trade Adjustment Assistance Program.	10/1/2022	9/30/2025	\$2,649,842.00
23A55WP000057	Wagner-Peyser Act Employment Services Program	7/1/2023	9/30/2026	\$10,868,056.00
23A60AD000005	Senior Community Service Employment Program	6/30/2023	6/30/2024	\$149,859.75
23A60AD000072	Senior Community Service Employment Program	7/1/2023	6/30/2024	\$1,651,091.47
23A75DJ000016	PROWD 2023	9/30/2023	9/30/2027	\$3,000,000.00
24A55AT000094	PY 2024 WIOA Adult Program	7/1/2024	6/30/2027	\$7,311,724.00
24A55AW000071	PY 2024 WIOA Dislocated Worker Program	7/1/2024	6/30/2027	\$8,545,279.00
24A55AY000087	PY 2024 WIOA Youth Program	4/1/2024	6/30/2027	\$8,642,444.00
24A55TA000091	FY 2024 Trade Adjustment Assistance Program	10/1/2023	9/30/2026	\$128,095.00
24A55WP000092	PY 2024 Wagner-Peyser Employment Services Program	7/1/2024	9/30/2027	\$10,827,663.00
24A60AD000192	Senior Community Service Employment Program	6/30/2024	9/1/2025	\$1,888,582.00
25A55AT000143	PY 2025 WIOA Adult Program	7/1/2025	6/30/2028	\$6,580,946.00
25A55AW000151	PY 2025 WIOA DW Program	7/1/2025	6/30/2028	\$7,689,386.00
25A55AY000132	PY 2025 WIOA Youth Program	4/1/2025	6/30/2028	\$7,719,711.00

FAIN	Project Title	POP Begin Date	POP End Date	Total Grant Amount
25A55WP000130	PY 2025 Wagner-Peyser Employment Services Program	7/1/2025	9/30/2028	\$10,724,779.00
25A60AD000259	Senior Community Service Employment Program	7/1/2025	6/30/2026	\$1,848,642.00
26A75DJ000027	PROWD 2025	10/1/2025	9/30/2029	\$2,000,000.00
AA363272155A27	WIOA Formula Youth / Adult / Dislocated	4/1/2021	6/30/2024	\$30,307,251.59
AA385372255A27	WIOA Youth / Adult / Dislocated Worker Formula Grant Programs	4/1/2022	6/30/2025	\$28,844,057.00
DJ392312275A27	First Step Act Initiative	10/1/2022	3/30/2026	\$8,000,000.00
ES367622155A27	Employment Services - Wagner Peyser	7/1/2021	9/30/2024	\$11,812,985.00
ES387382255A27	Employment Service -- Wagner Peyser	7/1/2022	9/30/2025	\$11,550,882.00
TA386872255A27	Trade Adjustment Assistance	10/1/2021	9/30/2024	\$1,762,475.59
Subtotal				\$210,866,865.40

Source: OIG analysis of data provided by ETA's Office of Grants Management

Table 2: Employer-Focused Grants

FAIN	Project Title	POP Begin Date	POP End Date	Total Grant Amount
23A55FL000056	FY 2023 Foreign Labor Certification Program	10/1/2022	9/30/2025	\$265,533.00
24A55FL000080	FY 2024 Foreign Labor Certification Grants	10/1/2023	9/30/2026	\$290,267.00
24A55WT009054	FY-24 Work Opportunity Tax Credit Program	10/1/2023	9/30/2025	\$273,378.00
25A55FL000159	FY 2025 Foreign Labor Certification Program	10/1/2024	9/30/2027	\$303,894.00
25A55WT009101	Work Opportunity Tax Credit Program	10/1/2024	9/30/2026	\$361,123.00
FL380672255A27	Foreign Labor Certification	10/1/2021	9/30/2024	\$223,907.00
PE362172160A27	Fidelity Bonding Demonstration Grants	4/7/2021	4/6/2025	\$31,871.72
WT379192255A27	Work Opportunity Tax Credit Program	10/1/2021	3/31/2024	\$492,845.00

FAIN	Project Title	POP Begin Date	POP End Date	Total Grant Amount
WT394062355A27	Work Opportunity Tax Credit	10/1/2022	9/30/2024	\$288,016.00
Subtotal				\$2,530,834.72

Source: OIG analysis of data provided by ETA's Office of Grants Management

Table 3: System-Focused Grants

FAIN	Project Title	POP Begin Date	POP End Date	Total Grant Amount
23A55WG000054	PY 2023 Workforce Information Grants	7/1/2023	9/30/2026	\$599,354.00
23A75MI000002	2023 CareerOneStop	1/1/2023	12/31/2026	\$7,531,336.00
23A75MI000014	2023 MN DEED ARC Project	1/1/2023	9/30/2025	\$805,000.00
24A55WG000066	PY 2024 Workforce Information Grants	7/1/2024	9/30/2027	\$596,945.00
24A75MI000031	2024 MN DEED ARC	1/1/2024	12/31/2026	\$885,000.00
24A75MI000032	2024 MN DEED COS	1/1/2024	12/31/2026	\$7,609,295.24
24A75MI000050	2024 MN DEED COS sweep	9/30/2024	12/31/2026	\$7,500,397.43
25A55WG000155	PY 2025 Workforce Information Grants	7/1/2025	9/30/2028	\$593,913.00
25A75MI000056	2025 MN DEED ARC	4/1/2025	9/30/2027	\$885,000.00
25A75MI000075	2025 MN DEED CareerOneStop Sweep	9/30/2025	9/29/2028	\$2,897,020.19
MI367022175A27	Analyst Resource Center	6/1/2021	12/31/2023	\$760,471.22
MI379522275A27	Career One Stop Project	10/1/2021	12/31/2024	\$8,620,343.00
MI386612275A27	Analyst Resource Center	6/30/2022	6/30/2025	\$805,000.00
Subtotal				\$40,089,075.08

Source: OIG analysis of data provided by ETA's Office of Grants Management

Table 4: Totals for the 48 DEED Grants

Grants	Amount
Participant-Focused Grants	\$210,866,865.40
Employer-Focused Grants	\$2,530,834.72
Subtotal	\$213,397,700.12
System-Focused Grants	\$40,089,075.08
Total	\$253,486,775.20

Source: OIG analysis of data provided by ETA's Office of Grants Management

Exhibit 2: Questioned Costs**Table 5: Questioned Costs⁵**

Grants	Amount
Participant-Focused Grants	\$210,866,865.40
Fidelity Bonding Demonstration Grants	\$31,871.72
Total Questioned Costs	\$210,898,737.12

Source: OIG analysis based on information obtained during fieldwork.

⁵ As defined by the Inspector General Act of 1978, as amended, “questioned costs” include alleged violations of law, regulations, contracts, grants, or agreements governing the expenditure of funds; costs not supported by adequate documentation; or the expenditure of funds for an intended purpose that was unnecessary or unreasonable.

Attachment: Agency Response to the Alert Memorandum

The agency's response to our draft alert memorandum follows.



September 25, 2026

MEMORANDUM FOR: LAURA B. NICOLSI
Assistant Inspector General for Audit

FROM: MAREK LACO 
Acting Assistant Secretary for Employment and Training

SUBJECT: Response to Draft Alert Memorandum: Closure of the Minnesota
Grant Audit Due to Data Not Provided by the Minnesota Department
of Employment and Economic Development, Report Number:
02-26-002-03-391

The U.S. Department of Labor's (Department) Employment and Training Administration (ETA) appreciates the opportunity to respond to the above-referenced draft alert memorandum from the Office of Inspector General (OIG) regarding concerns about receiving data from the Minnesota Department of Employment and Economic Development (DEED).

ETA appreciates the OIG considering ETA's technical comments on a prior version of this alert memorandum and incorporating some of ETA's feedback into this version. ETA recognizes that a significant amount of work has occurred under this audit already, thus, ETA would welcome the OIG reopening the audit and working alongside ETA to make the data available to the OIG.

Responses to the OIG Recommendations

Please find below each of the OIG's recommendations contained in the draft alert memorandum, followed by ETA's response to each of the recommendations.

Recommendation 1: Issue a formal determination of noncompliance and take applicable actions outlined in federal regulations.

ETA Response: ETA agrees states are required to provide OIG auditors access to state data, including through the standard auditor-access roles that states routinely use to grant the OIG entry into their data systems. If ETA finds that Minnesota did not comply, ETA will require appropriate corrective action through its grants management and monitoring framework.

Recommendation 2: Remedy the \$210,866,865 in grant funds associated with the 26 participant-focused grants by verifying the supportability, allowability, and accuracy of the participant data provided.

ETA Response: ETA agrees that verifying the supportability, allowability, and accuracy of participant data is critical and will continue to follow its established grants monitoring process. ETA's Chicago Regional Office's monitoring included five reviews between December 2022

and August 2026, covering 16 grants, including a recent Workforce Innovation and Opportunity Act Title I review.

Current evidence does not substantiate blanket misspending of \$210,866,865. Further evidence of noncompliance, unsupported costs, or data inaccuracies would be necessary before ETA considers remedies, and ETA will continue to determine the need for corrective action through its grants management and monitoring framework. Should such information be uncovered, ETA will follow appropriate protocol and escalate action (e.g., comprehensive monitoring reviews, high risk designation, increased reporting requirements, restricted drawdowns, etc.).

Recommendation 3: Remedy the \$31,871 in grant funds associated with the Fidelity Bonding Demonstration Grant.

ETA Response: ETA concurs with this recommendation. However, as ETA informed the OIG in its technical comments on this alert memorandum, the Fidelity Bonding Program was a service to employers. Much of the information mentioned in the OIG's alert memorandum was not required as eligibility criteria for the individuals bonded; the necessary evidence that would support these costs would be to demonstrate that only persons with criminal records, including those involved with the criminal justice system by virtue of their history of opioid or other drug addictions, were covered by the bonds purchased with these funds.

ETA respectfully requests that the OIG provide ETA with specific information related to its questioned costs for the Fidelity Bonding Demonstration Grant, so that ETA can follow its audit resolution process. Initial and final determinations will be issued to Minnesota, per the process outlined in the Department of Labor Manual Series (DLMS) 8 Chapter 300, to determine if there are disallowed costs subject to repayment and, if so, the amounts. Once the audit resolution process is complete, ETA will provide the OIG with a copy of the final determination and evidence of any repayment of disallowed costs, if any.

The Administrator for the Office of Grants Management is responsible for the implementation of this recommendation.

Recommendation 4: Communicate to the Minnesota Department of Employment and Economic Development the expectation that they cooperate fully with OIG audits, by providing timely and complete access to requested information.

ETA Response: ETA concurs with this recommendation. Conversations were held with senior DEED leadership on September 14 and 16, 2026, and will continue until resolution.

The Administrator of ETA's Chicago Regional Office is responsible for the implementation of this recommendation.