



February 27, 2006

MEMORANDUM FOR: EMILY STOVER DEROCCO
Assistant Secretary for Employment
and Training

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Grant Implementation Issues
National Emergency Grant No. EM-15066-05-60
Issued to the Mississippi Department of Employment
Security for Hurricane Katrina Relief
Management Letter No. 04-06-004-03-390

INTRODUCTION

Normally a Management Letter is provided to be read in conjunction with an accompanying audit report. However, due to the proactive nature of our current work related to Hurricane Katrina, we will be issuing Management Letters to inform the Department, in this case, the Employment and Training Administration (ETA), of issues/problems we believe should be disclosed to help the Department's programs operate efficiently and effectively while reducing the possibility of fraud, waste, and abuse. We will also use this medium to provide positive feedback regarding grant operations.

BACKGROUND

On August 29, 2005, Hurricane Katrina hit the Louisiana, Mississippi, and Alabama coasts resulting in a national disaster. In response to this disaster, on September 2, 2005, ETA awarded the State of Mississippi a National Emergency Grant (NEG) to create 10,000 temporary jobs for dislocated workers. The \$50 million grant, administered by the Mississippi Department of Employment Security (MDES), had an initial release of \$16.7 million.

This Management Letter is an interim reporting mechanism and should be read with the understanding that, once the NEG to MDES is fully implemented and

accrued expenditures reported, financial or performance audits of the subject NEG may be performed.

The State has four Local Workforce Investment Areas (LWIA), all of which received NEG funds. Although funds were distributed to all four areas, there was a weighting towards the areas most heavily impacted by the hurricane.

OBJECTIVE, SCOPE, AND METHODOLOGY

During the period of October 25, 2005, through November 10, 2005, we performed work at MDES, two LWIAs--Southcentral Mississippi Works and Twin Districts--and five temporary jobs worksites (two for Southcentral Mississippi and three for Twin Districts.) According to LWIA records, the selected LWIAs had 37 worksites and enrolled 105 participants. The worksites were established to provide public service employment to evacuees and other eligible participants. For the 5 temporary worksites we visited, we interviewed 17 NEG participants. Eight of the 17 participants interviewed were considered evacuees.

Our goal is to assist ETA in its efforts to ensure that NEG funded programs are effective and to reduce the potential for fraud, waste, and abuse.

This work was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of the examination of relief efforts provided by the Federal government in the aftermath of Hurricanes Katrina and Rita. Upon issuance in final, a copy of this Management Letter will be forwarded to the PCIE Homeland Security Working Group, which is coordinating Inspectors General reviews of this important subject.

RESULTS

Positive Issue:

For the five worksites we visited, the positions that have been filled in each local area are generally administrative positions, many of which are Disaster Recovery Center managers. The individuals filling these positions are responsible for overseeing the Centers, ensuring peace is maintained within them, and ensuring all agencies that are supposed to be represented at the Centers are present. These Disaster Recovery Center managers also have been helping individuals obtain official documents and referring them to other agencies.

Potential Issues:

- **TempStaff underpaid workers by paying wages at the Federal minimum wage rate, and overcharged the grant by billing based on an agreed-upon wage rate rather than the lower, actual wage rate, in some instances.**

The NEG's public service employment component was being operated by a contractor, TempStaff.¹ The Central Mississippi Planning and Development District, the fiscal agent for Southcentral Mississippi Works, signed a \$2.5 million cost reimbursement contract with TempStaff. Likewise, the Southern Mississippi Planning and Development District, fiscal agent for the Twin Districts signed a cost reimbursement contract worth \$4 million with TempStaff, which then partnered with the CPI-Group to staff the Twin Districts' geographic area. These two temporary agencies are the employers of record for the participants.

According to the signed contracts, TempStaff's billing rate is 30.5 percent of all wages paid to eligible workers.² This rate includes TempStaff's obligation to pay workers' compensation, unemployment insurance, and all applicable taxes. However, TempStaff underpaid workers and overcharged the grant when workers quit their positions without providing proper notification. In these instances, TempStaff reduced the employees' hourly wages from the agreed-upon wage rate to the Federal minimum wage, which is a contractual violation of their agreement to pay workers the prevailing wage rate. Further, even though the wages paid were less than the agreed-upon wage rate, TempStaff continued to bill their 30.5 percent rate using the agreed-upon wage rate rather than what was actually paid. TempStaff officials informed us that this was their normal business practice, but they agreed to discontinue this practice in the case of the NEG.

- **The State overestimated the number of public service employment positions needed.**

The numbers of identified worksites and temporary workers are growing every week, but the number of workers is not anticipated to reach anywhere near the original estimate of 10,000 workers statewide. In fact, the State plan's budget for these positions is now at about 1,000 workers. We were told by State and Local officials that the reduced number of workers expected was due to an overestimation of the number of positions needed. We were further informed that both public and private employers were having difficulty finding workers willing to fill open positions.

- **Two individuals hired at one worksite were not eligible for their public service employment positions.**

¹ The two local areas we visited sought and received authorization from MDES for sole source procurement of temporary employment services from TempStaff. The use of sole source procurement was justified due to the existence of a public emergency and the significant delay that competitive procurement would cause.

² We contacted two other temporary employment agencies and found that TempStaff's billing rate was competitive.

One worksite we visited in Lucedale, Mississippi, was employing two people who were recruited out of retirement to fill administrative positions with the County. Each of these participants told us they were not working or actively seeking work prior to the hurricane.

RECOMMENDATION

We recommend the Assistant Secretary for Employment and Training evaluate the issues raised in this Management Letter to determine how they might be addressed by ETA and/or State officials.

AGENCY RESPONSE

In response to the draft Management Letter, the Assistant Secretary for Employment and Training stated that a Katrina Team has been organized by the Office of National Response to assist regional offices and states to resolve questions or concerns as they arise. The Assistant Secretary specifically agreed to: (1) review TempStaff contracts and billings and ensure that any overcharge to the grant and/or underpayment to participants be rectified; (2) follow up on the State's planning assumptions for public sector employment positions and request that a modification request be submitted to the NEG grant officer, if necessary; and (3) ensure that the Atlanta Regional Office works with the grantee to reclassify any ineligible participants as staff employees, as appropriate, in order to carry out the purposes of the project. The Assistant Secretary's response is included in its entirety as an Attachment.

OIG CONCLUSION

Based on the Assistant Secretary's response, we consider the recommendation resolved. It will be closed upon receipt of the results of ETA's actions as described in the response.

This final Management Letter is submitted for appropriate action. We request a response within 60 days describing actions taken in response to the recommendation.

If you have any questions concerning this final Management Letter, please contact Michael Yarbrough, Regional Inspector General for Audit, in Atlanta at (404) 562-2341.

Attachment

cc: Steven Law
Deputy Secretary

Helen Parker
Regional Administrator

Tommye Dale Favre
Executive Director, Mississippi Department of Employment Security

Phyllis Newby
ETA Audit Liaison



FEB 2 2006

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

FROM: EMILY STOVER DeROCCO *Emily Stover DeRocco*

SUBJECT: Draft Management Letter No. 04-06-004-03-390
Grant Implementation Issues
National Emergency Grant No. EM-15066-05-60, Awarded to
the Mississippi Department of Employment Security for
Hurricane Katrina Relief

This is in response to the referenced OIG Draft Management Letter regarding issues that have been identified by your office related to a review of the Hurricane Katrina National Emergency Grant (NEG) awarded to Mississippi. We appreciate the information provided and will work with the Regional Office in Atlanta and the State to find solutions to the issues raised in your memorandum.

A Katrina Team has been organized by the Office of National Response to assist regional offices and states resolve questions or concerns as they arise. Members of this team will also be members of the Employment and Training Administration (ETA) monitoring teams going to states with NEG Katrina grants. This has occurred in Mississippi, is now occurring in Louisiana and a return trip to Mississippi is being scheduled. The following are some preliminary comments on the potential issues raised by the OIG--

- **TempStaff underpaid workers by paying wages at the Federal minimum wage rate, and overcharged the grant by billing based on an agreed-upon wage rate rather than the lower, actual wage rate, in some instances.** ETA will review the contracts, the requirements contained therein and the contractors' billings to the grant. Any overcharge to the grant and/or underpayment to participants will be rectified. Although additional information is required, ETA would generally expect that any costs approved for the contractor would be in addition to the wages approved for the various jobs covered.

- **The State overestimated the number of public [sector] employment positions needed.** NEGs are required to be modified when the planning assumptions change as a project progresses. A follow-up regional office monitoring visit will review this issue and request the State to submit a modification request to the NEG grant officer, if necessary at that time for public sector jobs (authorized under the Flexibility Act for Dislocated Workers) and disaster relief employment, authorized under WIA Sec. 173(d).
- **Two individuals hired at one worksite were not eligible for their public [sector] employment positions.** The two formerly retired individuals who are working on the project appear to be individuals that could be hired as staff employees to work on the project. The award letter permits such hiring to be able to carry out the purposes of the project. The Atlanta Regional Office will work with the grantee to reclassify these – or any other similarly situated individuals – as appropriate. This will be included in the follow-up monitoring visit to the State.

For the sake of clarity, given there are two classifications of jobs for which eligible participants may be hired to respond to recent Gulf Coast hurricanes, ETA differentiates between “disaster relief employment” authorized by WIA Sec. 173(d) and “public sector employment” authorized by the Flexibility for Dislocated Workers Act, as amended. We believe this is important since not only is the nomenclature different, but as is pointed out in the OIG memoranda related to monitoring projects in the covered states, so are the types of jobs authorized, even though both are types of subsidized “public service employment.”

Thank you again for your letter. We look forward to receiving your report. If there are additional questions or clarifications required, please contact Douglas F. Small, Administrator, Office of National Response at 202-693-3876.