



September 30, 2016

MEMORANDUM FOR: PORTIA WU
Assistant Secretary
for Employment and Training

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Audit of Experience Works' Senior Community
Service Employment Program Grant,
Interim Report No. 26-16-001-03-360

The purpose of this memorandum is to alert you to certain issues identified during our ongoing audit of Experience Works, Inc., a grantee under the Department of Labor's (DOL) Employment and Training Administration's (ETA) Senior Community Service Employment Program (SCSEP). Experience Works received \$104 million of grant funds for Program Year (PY) 2014. This amount represents 24 percent of the \$434 million in total SCSEP grant funding that ETA awarded for PY 2014. Experience Works operates in 30 states and provides services to more than 15,000 participants.

ETA is currently competing SCSEP grants for a four-year award period. The grant solicitation period closed on July 25, 2016, and ETA anticipates awarding new grants in early October 2016, with a start date of October 16, 2016.

Issues we identified during our ongoing audit include the following:

- Scoring criteria for this grant competition included elements that could allow financially unstable organizations or organizations with significant operating deficiencies to potentially score high and receive a grant award.

- In its December 2015, “Financial Compliance Review,” ETA identified a number of financial mismanagement findings and \$1.6 million in questioned costs for Experience Works for the period spanning from July 1, 2012, through June 30, 2015, which raised serious concerns about Experience Works’ financial stability and ability to operate successful and compliant federally-funded programs.

The issues we noted raise concerns about the adequacy of ETA’s grant-award criteria and call into question Experience Works’ ability to perform future grant requirements. These issues should be considered by ETA as part of its current SCSEP grant competition. Our ongoing audit may identify additional problems with respect to Experience Works’ financial management practices. We will provide the complete results of our audit after we conclude the remaining fieldwork.

INTERIM RESULTS

Grant Competition Criteria

We are concerned ETA’s grant competition criteria may allow organizations that are financially unstable and have operating deficiencies to score high and receive grant awards. The Older Americans Act (OAA) stipulates that ETA hold a full and open competition for national grants every four years.¹ On June 23, 2016, ETA issued a grant solicitation for the current four-year cycle. Based on our review of ETA’s Funding Opportunity Announcement, we found the maximum points allowed for the different criteria elements in the solicitation could potentially result in a financially unstable organization achieving a high score and winning a grant award. For example, out of a total possible 100 points, the solicitation allocated 6 points for “Financial stability and ability to adjust to changes in funding,”² and 5 points for “Reporting and audits.”³ Therefore, even if an applicant received no points in either of these areas, it could still score a 94 or 95.

ETA said competitive grant awards are often determined by as little as 1 point, or a fraction thereof; and the allocation of a full 11 points for these critical areas is significant, as the loss of even a few of these points can be the difference between the applicant receiving and not receiving an award. We note, however, the potential for a financially-mismanaged organization to win a grant award still exists. As such, it is critical to consider the risk financially unstable applicants pose and evaluate financial stability separately from technical merit.

¹ OAA, §514(a)(1). This requirement is also described in Title 20, Code of Federal Regulations, Part 641.490(a)(1), which states, “(t)he Department will hold a full and open competition for national grants every four years.”

² The point awards are based on a number of related elements, including the applicant’s description of its financial capacity to administer SCSEP by providing evidence of strong accounting systems, fiscal controls, and previous grant fund management.

³ The point awards are based on a number of related elements including the applicant’s description of audit or monitoring findings and recommendations for the past three years, status of any corrective action(s), and how it will ensure all grant funds are spent in an efficient manner.

Because ETA has already announced the evaluation criteria, it will have to follow that criteria for the current SCSEP grant solicitation. However, ETA's solicitation announcement provides another means to ensure the agency gives financial stability adequate consideration. The solicitation announcement stated:

The panel results are advisory in nature and not binding on the Grant Officer. The Grant Officer reserves the right to make selections based solely on the final scores or to take into consideration other relevant factors when applicable.

ETA has the ability to consider all relevant factors when making grant award selections. In doing so, ETA can remove from award consideration grant applicants that it finds to be financially unstable, even if they earn high technical merit scores.

Experience Works' Financial Mismanagement and Questioned Costs

ETA raised serious concerns about Experience Works' financial stability and its ability to operate successful and compliant federally-funded programs when the agency reported 13 findings related to financial mismanagement and \$1.6 million in questioned costs as a result of its December 2015, "Financial Compliance Review." Among other concerns, ETA reported that Experience Works:

- Depleted its federally-funded employee annual leave account to make up for significant agency cash shortfalls. As a result, ETA questioned \$1,156,330;
- Used federal grant funds to purchase a software company for \$248,000 and pay operating expenses of \$108,386. ETA questioned the entire amount, totaling \$356,386; and
- Lacked a system of internal controls or an effective control environment to provide accountability or reasonable safeguards over federal grant funds.

Experience Works described its corrective actions in a February 2016 response to ETA, which included a restitution plan; and in April 2016, provided supplemental information. The corrective actions included installing new management and board members. In August 2016, ETA notified Experience Works that its planned corrective actions and supporting documentation were inadequate to resolve the 13 findings. ETA concluded Experience Works failed to show its costs were allowable, allocable, necessary, and reasonable and increased the questioned costs from \$1.6 million to about \$2 million. ETA concluded that the new management Experience Works' had installed continued to employ the same poor financial management practices as its predecessors.

ETA's findings were especially of concern because Experience Works is funded almost entirely by SCSEP grant funds and it has no significant non-federal funding. For PY 2014, Experience Works received a total of \$104 million in SCSEP funds, either as a direct grant award (\$84 million) or as a subrecipient of state pass-through funds (\$20 million). These SCSEP funds accounted for 99.8 percent of Experience Works' revenues.

In its response to ETA's December 2015 report, Experience Works stated that one contributing factor to some of the findings was its overspending of \$1.6 million in PY 2014 grant funds. While Experience Works claimed most of the unallowable expenses had been paid with unrestricted operating (URO) funds and not federal funds, ETA's review found the URO account deposits were not sufficient to cover the unallowable expenses. In fact, the account had an operating deficit of more than \$300,000. ETA's follow-up response issued on August 5, 2016, reported Experience Works acknowledged it did not have URO funds or revenues available to cover any liability that may result from any disallowed costs.

Further, Experience Works' restitution plan included having DOL provide additional funding to cover \$1.1 million of the \$1.6 million it overspent in the PY 2014 grant. ETA notified Experience Works in August 2016 that the terms and conditions of the PY 2015 Award, federal regulations, and federal appropriation laws did not allow recipients to charge grant awards for expenditures that exceed the awarded amount, charge one award to pay for the over expenditures of another award, or charge an award for costs not properly documented and supported. ETA also informed Experience Works that the company had failed to submit sufficient information to demonstrate it had complied with these relevant legal authorities and the terms and conditions of its SCSEP grant awards.

The issues discussed above raise concerns regarding Experience Works' financial and operational stability. They also increase the risk that ETA will not be able to hold the grantee financially accountable if it awards Experience Works a new grant.

Additionally, in its solicitation, ETA decreased the maximum grant award amount for a single grant to \$50 million in order to reduce the financial risk inherent in large grant sizes. This amount is smaller than ETA's previous \$84 million in grant awards to Experience Works. The reduction does reduce risk; however, \$50 million remains a substantial award amount and ETA needs to evaluate a potential grantee's financial stability as a key piece of the risk assessment it performs during the grant award process. Any award amount is risky if the grantee is financially unstable.

We request you take immediate action to address these issues.

RECOMMENDATIONS

We recommend the Assistant Secretary for Employment and Training:

1. Specifically consider the issues identified in ETA's monitoring report and the current status of Experience Works' financial stability when assessing the risks involved in any Experience Works' grant proposal, or proposals from any prime grantee who may make a subaward to Experience Works.
2. Ensure future grant solicitations' award criteria provide for appropriate assessment of financial stability, quality of management systems, and history of performance.

In its response, ETA acknowledged the seriousness of the issues contained in its monitoring report and shared the OIG concerns. ETA said it will consider the status of Experience Works' financial stability when assessing the risks involved in Experience Works' application for an award under the current SCSEP grant competition. However, ETA said it is premature to consider the specific items identified in the monitoring report prior to resolving the findings and issues identified in the report. The results of the final determination will be considered in any evaluation of risk ETA conducts on Experience Works post the issuance of the final determination. ETA also said it is not feasible to consider the risks involved with any prime grantee that may make a sub-award to Experience Works because, in many instances, the subrecipients are not identified or known at the time of the application. Furthermore, ETA said it already has criteria in place for the current competition to appropriately assess financial stability, quality of management systems, and history of performance. Please see attachment for ETA's full response.

We affirm our conclusions and recommendations.

Attachment

U.S. Department of Labor

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



SEP 30 2016

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

FROM: PORTIA WU *Portia Wu*
Assistant Secretary

SUBJECT: Response to the Draft Interim Report on the Office of Inspector
General's (OIG's) Audit of Experience Works' Senior Community
Service Employment Program (SCSEP) Grant - Draft Interim Report
No. 26-16-001-03-360

Thank you for the opportunity to respond to the draft interim report cited above. The Employment and Training Administration (ETA) is committed to carefully following the established standard operating procedures for the review and selection of all grant awards to ensure fair and open competitions. ETA appreciates the acknowledgement on page 2 of the report that incorporates our feedback that competitive grant awards are often decided by as little as one point, or a fraction thereof, and that the loss of even a few points can be the difference between an applicant receiving or not receiving an award.

ETA's response to each of the recommendations in the draft interim report is as follows:

OIG Recommendation #1: Specifically consider the issues identified in ETA's monitoring report and the current status of Experience Works' financial stability when assessing the risks involved in any Experience Works' grant proposal, or proposals from any prime grantee who may make a subaward to Experience Works.

ETA Response: ETA understands the OIG's underlying concern that has led to the OIG making a recommendation that addresses three distinct issues: (1) ETA's Experience Works monitoring report; (2) Experience Works' financial stability; and (3) applicants/grantees that may make sub awards to Experience Works.

With regard to the first issue, ETA understands the seriousness of some of the issues contained in the monitoring report and shares the OIG concerns. Nonetheless, it is premature for ETA to consider the specific items identified in ETA's monitoring report when assessing the risks involved in Experience Works' grant application prior to a final resolution under applicable rules. ETA is currently following its established collaborative resolution process outlined in 2 CFR 2900.20 to resolve the findings and issues identified in ETA's monitoring report. Per 2 CFR 2900.20(a), "...The process of audit resolution includes at a minimum an initial determination, an informal resolution period, and a final determination." At this time, ETA is moving forward with the resolution process, but a final determination has not been issued to document the conclusions of the resolution process and the required corrective actions. 2 CFR 2900.5 indicates that "In the DOL, audits and monitoring reports containing findings, issues of

non-compliance or questioned costs are in addition to reports and findings from audits...” Thus, any findings or compliance issues contained in the final determination on the monitoring report would be considered in any evaluation of risk ETA conducts, per 2 CFR 200.205(c), on Experience Works post the issuance of the final determination.

It is unlikely that the resolution process will be concluded prior to ETA’s award selections under the current SCSEP grant competition, but any findings present in the final determination can be considered in future funding decisions even if Experience Works receives an award in the current competition based on technical merit. Even though a grant competition for SCSEP is only performed every four years, the allocations that grantees receive under SCSEP awards are appropriated annually and allocated each Fiscal Year, thus any grantee findings, issues of non-compliance, and questioned costs can impact the size of future allocations under their award.

With respect to the second issue, ETA will consider the current status of Experience Works’ financial stability when assessing the risk involved in Experience Works’ application for an award under the current SCSEP grant competition. ETA already considers the financial stability of every applicant prior to making a Federal award. Specifically, as required by 2 CFR 200.205, ETA has a standard pre-award risk review process in place that evaluates the financial stability of all applicants. For SCSEP competitions, ETA also performs the SCSEP responsibility review for all applicants, as required under the Older Americans Act (OAA) Sec. 514(d).

Regarding the third issue, ETA appreciates the intent behind considering the issues identified in ETA’s monitoring report and the current status of Experience Works’ financial stability when assessing the risks involved with any prime grantee that may make a sub award to Experience Works. Nonetheless, ETA does not view this particular recommendation as feasible because, in many instances, applicants’ subrecipients are not identified or known at the time of application. However, 2 CFR 200.331(b) assigns this responsibility to the recipient: all pass-through entities must evaluate each subrecipient’s risk, prior experience with similar sub awards, and the results of previous audits. Thus, the prime grantee is ultimately responsible for evaluating their subrecipient’s risk, not ETA. We note that Experience Works has made the monitoring report publicly available on its website, which prime grantees can use to facilitate their evaluation.

Finally, ETA notes that in the event of an award to Experience Works, or any other grantee where there may be some concerns regarding their performance or compliance, ETA as the grantor, has other methods it can avail itself of to mitigate risk, other than not making an award. ETA can require more frequent reporting; provide higher levels of technical assistance and monitoring; and put the grantee on restricted drawdowns and require documentation for the release of funds. These are steps ETA has already taken with Experience Works on its current grant.

OIG Recommendation #2: Ensure future grant solicitations’ award criteria provide for appropriate assessment of financial stability, quality of management systems, and history of performance.

ETA Response: ETA notes that current award criteria for ETA grant solicitations already provide for the appropriate assessment of financial stability, quality of management systems, and history of performance. The concerns noted in the OIG draft interim report focused on the fact

that the SCSEP "...solicitation allocated 6 points for 'Financial stability and ability to adjust to changes in funding', and 5 points for 'Reporting and audits'." The draft interim report also stated that "...even if an applicant received no points in either of these areas, it could still score a 94 or 95."

SCSEP and other ETA discretionary funding opportunities are usually very close competitions and the allocation of a full 11 points for those two evaluation criteria is truly significant. Ultimately, if an applicant loses even a few of those 11 points, it could be the difference between the applicant receiving or not receiving an award. In fact, grant award competitions are often determined by as little as one point, or a fraction thereof. As such, ETA maintains that the points currently assigned for financial stability, quality of management systems, and history of performance evaluation criteria in ETA's Funding Opportunity Announcements already ensure effective evaluation of all applications. Additionally, the SCSEP program is complex and requires grantees to assume a large number of intricate responsibilities. Weighing the factors above too heavily in favor of risk avoidance could skew the evaluation criteria to the point where it no longer effectively measures whether a grantee is otherwise capable of administering the SCSEP program.

Again, we appreciate the opportunity to respond to your draft interim report. If you have questions, please contact Laura P. Watson, Administrator, Office of Grants Management, at (202) 693-3333.