

**American Recovery and
Reinvestment Act of 2009
Workforce Investment Act
Summer Youth Program Services
Department of Labor and Employment**

**Performance Audit
November 2009**



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Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Department of Labor and Employment, American Recovery and Reinvestment Act funding for the Workforce Investment Act Summer Youth Program. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Labor and Employment.

Workforce Investment Act Summer Youth Program

Authority, Purpose, and Scope

Enacted in response to a significant slowdown in the American economy and increased unemployment nationwide, the federal American Recovery and Reinvestment Act (Recovery Act) became law in February 2009. According to Public Law 111-5, the Recovery Act's stated purpose is to:

- preserve and create jobs and promote economic recovery,
- assist those most impacted by the recession,
- provide investments needed to increase economic efficiency by spurring technological advances in science and health,
- invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits, and
- stabilize state and local government budgets, to minimize and avoid reductions in essential services.

The Recovery Act is expected to direct approximately \$787 billion in federal funds towards the American economy (including some in the form of tax-breaks) over the next several years. As of October 2009, the Governor's Economic Recovery Team reports that state agencies in Colorado have been awarded nearly \$1.7 billion in Recovery Act funds. The Recovery Act also included a commitment to increased accountability and transparency over how the funds are used. In Colorado, the Governor created the Colorado Economic Recovery Accountability Board (Accountability Board) to oversee the Recovery Act funding in Colorado. The mission of the Accountability Board is to ensure state and local agencies direct funding with transparency and accountability, and to the highest benefit possible. The Governor's Office also created a website at <http://www.colorado.gov/recovery/> to report and track all Recovery Act funds flowing into Colorado, whether those funds are awarded to state, local, or non-profit entities.

State and local governments and other recipients are required to spend Recovery Act funds in accordance with federal guidance and, in many instances, to report quarterly on Recovery Act expenditures, obligations, and jobs created. This level of reporting is unique to the Recovery Act. As a result, the public is expected to have unprecedented access to information about expenditures and program outcomes.

In accordance with the intent of the Recovery Act to ensure accountability for taxpayer funds, the Colorado Office of the State Auditor is conducting a series of performance audits focusing on review of Recovery Act expenditures. These audits are designed to provide Colorado taxpayers with an assessment of state agencies' internal controls over Recovery Act expenditures to ensure expenditures are proper, allowable, and reasonable. The audits are intended to complement state financial audits covering Recovery Act funds and provide greater state-level accountability for the large influx of federal money from the Recovery Act.

This audit is the first in the series of audits of Recovery Act funds and was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of departments, institutions, and agencies of state government. The scope of this audit focused on Recovery Act funds allocated to Colorado by the U.S. Department of Labor for the Summer Youth Program. The Summer Youth Program is operated under the Youth Services Program component of the federal Workforce Investment Act. Audit work was performed from August through November 2009. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Workforce Investment Act

The federal Workforce Investment Act of 1998 (WIA) [Public Law 105-220] provides federal funding for a range of workforce development services to job seekers, workers, youth, new entrants to the work force, veterans, persons with disabilities, and employers. Nationwide, the WIA program directed an average of about \$3.2 billion in federal funds towards job training services over the past five years. The Recovery Act increased these funding levels by directing nearly \$4 billion in additional federal funding toward WIA nationwide between February 2009 and June 2011. Colorado's allocation of WIA funding from the Recovery Act over the next two years is about \$31 million.

WIA comprises three distinct programs, each with specific eligibility criteria and goals:

- **Youth Services**—The Year-Round Youth Services Program provides training and educational services to individuals ages 14 through 21. Services are available to youth, both in- and out-of-school, who are low income, disabled, or homeless, or in need of assistance gaining basic

literacy skills. To be eligible for services, participants must provide proof of age, citizenship or alien status, income, and any barriers to employment. The Program focuses on services for preparing youth for the workplace, including skills assessment, job-readiness training, subsidized work experiences, and literacy classes. The Recovery Act directed funding to the WIA Youth Services Program and expanded eligibility to individuals between the ages of 14 and 24. Further, the Recovery Act encouraged the U.S. Department of Labor to develop an additional Youth Service Program, the Summer Youth Program, which provides youth with work experiences (federally-paid internships) over the summer. As a result, while the Year-Round Youth Services Program has both regular WIA and Recovery Act funding, the Summer Youth Program is funded solely through the Recovery Act. Once Recovery Act funds expire, the Summer Youth Program will not exist. Nationwide, the Recovery Act directed \$1.2 billion towards the Youth Services component of the WIA program. On average over the past five years, Colorado has received about \$11.4 million in regular WIA funding for the Youth Services Program each year. The Recovery Act allocated an additional \$11.9 million in Recovery Act funds to Colorado for the Youth Services Program, to be spent between February 2009 and June 2011. The Summer Youth Program is the focus of this audit.

- **Dislocated Worker Services**—This program provides training and employment services for individuals 18 years of age or older who have been laid off or are at risk of layoff. Services include job skills assessment, job referral, and customized job skills training focused on retraining laid off workers to prepare for new occupations and retraining incumbent workers to avoid layoffs. Nationwide, the Recovery Act directed about \$1.3 billion in funds to the Dislocated Worker Services Program. On average, Colorado received about \$14.6 million in regular WIA funding annually during the past five years to provide services to dislocated workers. The Recovery Act provided an additional allocation of \$14.5 million to Colorado for the Dislocated Worker Services Program, to be spent between February 2009 and June 2011.
- **Adult Services**—This program provides training and employment services for unemployed or underemployed individuals who are 18 years of age or older. Services include assessment of job skills, referral to jobs, career planning and counseling, case management, subsidized work experiences, and job skills training. Nationwide, the Recovery Act directed \$500 million towards the Adult Services component of the WIA program. On average, Colorado received about \$9.9 million in regular WIA funding annually during the past five years for the Adult Services Program. The Recovery Act allocated an additional \$4.8 million to

Colorado for the Adult Services Program, to be spent between February 2009 and June 2011.

In Colorado, the WIA programs, including the Summer Youth Program, are overseen by the Department of Labor and Employment (the Department), Employment and Training Division. The Department oversees nine Regions that provide the day-to-day operation of the WIA programs. In total, there are 74 workforce centers, 53 full-service offices, and 21 satellite offices located within the nine Regions.

Program Administration

The WIA grant, including the Recovery Act portion, is 100 percent federally funded and requires no state match. The U.S. Department of Labor allocates WIA funding to states based on a formula that takes into account each state's unemployment rates, among other factors. The Recovery Act funds were allocated to the states based on this same formula. In Colorado, the Department allocates WIA and Recovery Act funds to the nine Regions throughout the state based on a statutory formula. The formula takes into consideration the ratio of the unemployed to the total population in the Region and, for the Youth Program, the total number of disadvantaged youth. County governments operate eight Regions, and the State operates one Region. The Region operated by the State is referred to as the Rural Consortium, which consists of 11 sub-Regions. For a map of the nine Regions' geographic areas, see Appendix A.

As stated previously, the nine Regions operate the 74 workforce centers responsible for day-to-day program operations, including determining eligibility for WIA program services, assessing participants' work skills and deficiencies, and providing participants with all program services. The Department is responsible for overseeing both the programmatic and financial operations of all the Regions. The oversight includes annual performance monitoring of Regions, quarterly reviews of budget to actual expenses, calendar year-end reviews of the financial controls in place at each Region, and ongoing technical assistance. Additionally, federal WIA regulations require the Department to issue guidelines, definitions, and guidance on how to implement WIA.

WIA grants are awarded in July of each year for a three-year period. For example, for the WIA grant awarded on July 1 2008 for Program Year 2008, states have until June 30, 2011, to spend the funds. The Recovery Act funding is considered to belong to Program Year 2008 and therefore must be expended by June 30, 2011. WIA grants are reimbursement-based, which means that the State is required to first spend the money and then request reimbursement for the expenditures from the federal government. The State draws down the federal

funding based on requests from the Regions, which can be submitted to the Department as often as weekly. As shown in the table below, the Recovery Act funding in Program Year 2008 greatly increased the amount of funding available for use for the WIA youth programs between July 1, 2008, and June 30, 2011, when the Recovery Act funds expire.

WIA Youth Services Program Grant Awards Program Years 2005 through 2009¹					
	Program Year 2005	Program Year 2006	Program Year 2007	Program Year 2008	Program Year 2009
Youth Services Program Total Grant Awards	\$13.9	\$12.0	\$11.6	\$22.2	\$9.2
WIA Awards	\$13.9	\$12.0	\$11.6	\$10.3	\$9.2
Recovery Act Awards ²	—	—	—	\$11.9	—

Source: U.S. Department of Labor WIA award notifications.
¹ Program Years begin on July 1 each year. Grant funds expire three years later on June 30.
² Funding for the Youth Services Program under the American Recovery and Reinvestment Act is all considered Program Year 2008 funding.

Summer Youth Program

Originally discontinued in 2000, the Summer Youth Program was re-instated under the Recovery Act as a summer employment program for individuals ages 14 through 24 who have barriers to employment, such as low incomes, learning disabilities, or homelessness. Note that the Recovery Act extended eligibility for the Youth Services Program beyond the 21-year-old age limit allowed by WIA. Federal guidance strongly encouraged states to operate a summer youth program between May 1, 2009 and September 30, 2009. If additional Recovery Act funds remain, the guidance allows states to operate summer youth programs in 2010 as well. The goal of the Summer Youth Program is to provide youth with paid “work experiences” that allow them to: (1) experience the rigors, demands, and rewards of work, along with the consequences of poor performance as they relate to holding a job; (2) learn work-readiness skills; and (3) acquire measurable communication, interpersonal, and decision-making skills. A “work experience” is defined as a structured learning experience at a worksite designed to expose participants to the working world and its requirements. A work experience may occur at public, private, or nonprofit worksites. Participants in the Summer Youth Program receive wages for their work, which are funded entirely by the Recovery Act.

The stand-alone Summer Youth Program was previously operated under the Job Training and Partnership Act of 1982 (JTPA) [Public Law 97-300]. WIA

officially replaced JTPA in 2000, and the stand-alone Summer Youth Program ended. One component of the JTPA Summer Youth Program—the work experience component—was incorporated as one of 10 available service elements for participants in the WIA Year-Round Youth Services Program. The 10 service elements required under the WIA Year-Round Youth Services Program also include such things as occupational skills training, study skills, job placement, and leadership development. Because the WIA Year-Round Youth Services Program requires local agencies to make all 10 service elements available to Program participants, this greatly reduced the amount of funding dedicated to work experiences in the Year-Round Program.

The Recovery Act revived the stand-alone Summer Youth Program as a component of WIA's Youth Services Program. Revitalizing the Summer Youth Program was a priority for the United States Congress. According to Congressional conference committee minutes, conferees were interested in using Recovery Act funds to create youth summer employment opportunities under the WIA Youth Services Program. The U.S. Department of Labor strongly encouraged states to create summer youth programs and spend the majority of Recovery Act funds during the period May 1, 2009, to September 30, 2009. In keeping with the federal guidance, the Department asked local Regions to spend 70 percent of the Recovery Act funds directed toward WIA youth services by September 30, 2009.

Summer Youth Program Participation

In the five months from May to September 2009, the Summer Youth Program in Colorado served more than 3,200 participants, while an average of 3,000 participants were served through the WIA Year-Round Youth Program during each of Program Years 2007 and 2008. Moreover, the Summer Youth Program also greatly increased youths' participation in a work experience. The WIA Year-Round Youth Program provided work experiences to an average of about 570 youth during each Program Year. In contrast, the Summer Youth Program provided work experiences to nearly all of the approximately 3,200 participating youth between May 1 and September 30, 2009, an increase of about 460 percent over the average number of participants provided with work experience through the Year-Round Youth Program.

Participants in the Summer Youth Program received a variety of types of work experience and were placed with private businesses, nonprofit organizations, government entities, and schools. Participants worked in a variety of jobs and served as administrative assistants, custodians, veterinarian assistants, teachers' aides, landscapers, general laborers, food service workers, and environmental technicians, among other jobs.

In addition to the impact on individual participants, the Department reports that the Summer Youth Program had a positive impact on Colorado's economy by creating the equivalent of approximately 202 jobs. The Department was required to submit job creation figures to the federal government on October 10, 2009, in the State's first Recovery Act quarterly report. Federal guidance requires that agencies report jobs created as full-time equivalents, or FTE. FTE are calculated on the basis of hours worked and length of employment, and not on the number of positions created. For instance, four Summer Youth Program participants each working 10 hours a week for four weeks is the equivalent of about one month of work for a full-time worker, or about 8 percent of a full-time position for one year, based on a 2,080-hour work year. Since most Summer Youth Program participants worked part-time for only a few months, multiple positions are needed to equal one full-time job. The Office of the State Auditor will be conducting a performance audit reviewing job creation statistics reported to the federal government in a report to be completed in 2010.

Summary of Findings

As stated, this audit focused on the Summer Youth Program component of the WIA Youth Services Program. Our audit reviewed three areas of compliance that are key to the Summer Youth Program: (1) eligibility determination, (2) work experience placements, and (3) payments to Summer Youth Program participants. During our audit we visited four workforce centers in three Regions, reviewed participant case files, interviewed workforce center and Department staff, and analyzed data provided by both the Department and workforce centers.

Overall we found that the Department's implementation of the Summer Youth Program complied with rules and regulations. More than nine years have elapsed since the Department last operated a summer youth program, and the implementation time frame for the 2009 Program was relatively brief (about two months). We found, however, that the Department needs to provide more guidance and oversight to the workforce centers for operating the Summer Youth Program. Specifically, we identified a need for enhanced oversight in three areas. First, the Department needs to issue guidance and provide training to Regions on how to monitor wage payments to participants. Second, the Department needs to monitor youth job placements at Regions to ensure placements do not occur at prohibited worksites. Finally, the Department needs to issue guidance and review the Regions' administrative and program cost allocations to ensure these allocations comply with federal WIA regulations.

While our audit work focused on the Summer Youth Program, the findings are also applicable to WIA's Year-Round Youth Services Program. As mentioned above, work experience, the primary focus of the Summer Youth Program, is one

of 10 services offered to youth in the WIA Year-Round Youth Services Program. In fact, the Summer Youth Program was developed within the existing framework and state-issued guidance for the Year-Round Program. Consequently, improving internal controls and cost allocation practices under WIA will benefit not only the Summer Youth Program but also the Year-Round Program.

Expenditures

Federal guidance [Office of Management and Budget Circular A-87] requires recipients of federal funds to have adequate internal controls to ensure grant expenditures are reasonable, appropriate, and supported by adequate documentation. With respect to the Summer Youth Program, the Department is expected to establish adequate internal controls to ensure that wages paid for work experience have been earned by youth participants and paid in accurate amounts. In total, the Summer Youth Program paid nearly \$3.3 million in wages to program participants between May 1 and September 30, 2009, out of total expenditures of \$6.8 million. Other expenditures for the Summer Youth Program include education, training, and incidentals such as clothing for participants to wear to interviews or at work.

We reviewed 285 work experience payment transactions totaling about \$90,000, along with the supporting documentation. We found errors in 35 of the 285 transactions reviewed (12 percent). Of the 285 transactions tested, 217 were timesheet transactions and the remaining 68 were related to payments for supportive services such as training, education, or clothing for participants to wear to job interviews. We identified internal control weaknesses related to timesheet documentation and approvals, resulting in wage payment errors. Specifically, we found:

- **Calculation Errors.** We identified calculation errors in 14 wage payments. These errors occurred at two Regions and totaled about \$1,000 in overpayments and \$50 in underpayments, or 1 percent of the total expenditures reviewed. These errors are questioned costs. The errors resulted from poorly designed procedures such as paper timesheets that do not require participants to log time in and time out, and lack of clarity about how participants should account for lunch hours. Case manager reviews did not detect the timesheet errors prior to payment.
- **Lack of Supervisor Approvals.** At two of the four workforce centers we visited, the timesheets had a pre-printed worksite supervisor listed as authorized to approve the timesheets. We reviewed 116 timesheets at these two workforce centers and found that 21 (18 percent) were approved by someone other than the client's primary work experience supervisor.

These 21 exceptions were all noted at one workforce center. The remaining two workforce centers we visited did not include the approving supervisor on the timesheet or had a hand-written supervisor listed, and therefore we could not easily determine from our review of 101 timesheets at these two workforce centers how many were approved by the authorized worksite supervisor. Without a clearly defined review and approval process for timesheets, there is no assurance that timesheets accurately reflect hours worked or that payments to participants are appropriate.

These problems occurred because the Department has not promulgated guidance to Regions on the proper practices for recording work time and approving timesheets. Further, the Regions we visited also did not have documented processes for recording time and approving timesheets. However, all four workforce centers we visited reported that they had established processes for timesheet review and approval. Generally, these workforce centers required participants to complete a paper timesheet, attest to the timesheet's accuracy, submit the timesheet to their worksite supervisor for review and approval, and finally submit the approved timesheet to their case manager for review and approval.

According to federal regulations [29 CFR 97.40], the Department is ultimately responsible for ensuring all WIA expenditures are accurate and allowable. Moreover, State Fiscal Rules require the Department to ensure all expenditures are reasonable and necessary. The Department should issue guidance to workforce centers on the proper review of timesheets and provide a template or tool to automate and consistently record time charged by clients to work experience. Additionally, the Department should ensure the names of personnel authorized to approve client timesheets are documented in the case file, on the standard work experience contract, and printed on the timesheet. By standardizing the recording, review, and approval of timecards, the Department will improve the accuracy of time reporting and wage payments and ensure appropriate controls over WIA expenditures.

Recommendation No. 1:

The Colorado Department of Labor and Employment should improve the accuracy of wages paid to program participants in the WIA program by:

- a. Developing guidance for the Regions on the elements of adequate timesheet review and approval, including steps to identify calculation errors.

- b. Developing and offering the workforce Regions a standard template or other tool for recording time. The template should include those elements required on each timesheet such as the time-in, time-out, lunch hours, total hours worked, approved hourly wages, total wages, and name of the authorized supervisor. The Department should also consider offering a tool that automates the calculation of total hours worked and wages paid.

Department of Labor and Employment Response:

Agree. Implementation date: December 31, 2009.

- a. Workforce Development Programs has already initiated the development of a Program Guidance Letter (PGL) with detailed guidance regarding all aspects of providing work experience services to Recovery Act customers. This PGL will cover recommended procedures for ensuring adequate timesheet review and approval, including steps to identify calculation errors, and will be issued prior to December 31, 2009. Workforce Development Program will follow-up to ensure proper implementation of the PGL.
- b. As part of the aforementioned PGL, Workforce Development Programs is creating a standard work experience timesheet template for use by the Regions for Recovery Act customers. The data elements within the template will include time-in, time-out, and lunch hours, total hours worked, approved hourly wages, and name of authorized supervisor. The Department acknowledges that some Regions contract payroll processing to private vendors and may not be able to use the template as provided. However, Regions will be asked to ensure that all data elements from the template are incorporated in the local payroll process. Workforce Development Programs will follow up to ensure proper implementation of the PGL.

Work Experience

As mentioned earlier, the Summer Youth Program's primary purpose is to help a large number of disadvantaged and disconnected youth ages 14 through 24 improve their job prospects and long-term career success by providing them with work experiences. A work experience places youth participants in an internship-like experience at a public, private, or nonprofit worksite.

The U.S. Department of Labor issued Training and Employment Guidance Letter No. 14-08 (Guidance Letter) in March 2009, which encouraged work experience

placements that introduced participants to the rigors, demands, and rewards of a job and endeavored to ensure a meaningful work experience by matching the youths' interests and skills with the work experience. However, the Guidance Letter prohibits subsidized work experience in the following areas: aquariums, casinos, golf courses, swimming pools, and zoos. This prohibition is consistent with provisions contained in the Recovery Act.

We reviewed a total of 100 case files at four workforce centers to evaluate whether work experiences were consistent with the participants' expressed interests and skills. We also reviewed all job titles and employers for 3,201 work experience placements statewide to determine whether any placements fell within a job category prohibited by the Recovery Act.

First, we found that the four workforce centers we visited matched the youths' interests and skills with their work experience, as required by federal guidance. We did not identify concerns with the connection between participants' interests and their work experiences. For many of the files we reviewed, youth were primarily concerned with assisting their families with paying bills and were satisfied with any type of work experience. We did identify some instances where a participant's work experience did not appear to align with his or her career goal; however, in each instance we found that the workforce center could provide a reasonable rationale for the placement. For example, one youth expressed an interest in the culinary arts; however, he was not placed at a local restaurant because area restaurants had laid-off many workers, and WIA regulations prohibit use of WIA funds to replace laid-off workers.

Second, we found that workforce centers complied with Recovery Act prohibitions on specific work experience placements for nearly all Summer Youth Program placements in 2009. Specifically, of the 3,201 work experience placements statewide, we identified only three in a prohibited job category: swimming pools. A total of \$3,551 in Recovery Act monies was spent on wages for these three youths. This is a questioned cost.

Prior to the workforce centers' implementing the Summer Youth Program, the Department provided guidance to workforce centers that listed the types of job placements prohibited under the Recovery Act. However, the Department lacks monitoring systems to identify or track the job descriptions, employers, or job placements made by workforce centers in categories prohibited by the Recovery Act. Although the Department's electronic client database tracks a variety of information, including client eligibility and services, the client's work experience job title is not a required data element. Moreover, the field where case managers could enter the job title is a free-form text field, which makes meaningful searching or reporting difficult. Currently, the only way to ensure work experience placements comply with Recovery Act limitations is to manually

review each placement record, which is a time-consuming and labor-intensive process. Should the program continue, the Department would need to make system changes to enable automated review and oversight of work experience placements.

Currently at least one workforce center intends to operate a Summer Youth Program during the summer of 2010 using remaining Recovery Act funds. Consequently, it is important for the Department to improve controls to ensure work experience placements do not occur in job categories prohibited by the Recovery Act.

Recommendation No. 2:

The Colorado Department of Labor and employment should ensure compliance with the Recovery Act's limitation on work experience placements for the Summer Youth Program by:

- a. Identifying any Recovery Act funds that were spent to employ youth in prohibited job categories and ensuring those funds are refunded or replaced as necessary.
- b. Implementing ongoing or refresher training on the Recovery Act and Summer Youth Program for Regions that plan to continue the Program in summer 2010.
- c. Considering modification of its electronic client database to facilitate review and reporting of work experience job titles, if the Summer Youth Program is continued using Recovery Act funds in 2010. The Department should also develop guidance for and provide training to Regions on working with the modified database.

Department of Labor and Employment Response:

Agree.

- a. Implementation date: December 31, 2009.

Workforce Development Programs will contact the Regions identified by audit as placing youth in summer work experiences that are prohibited by the Recovery Act. Workforce Development Programs will review the job descriptions in question and determine those that are out of compliance with the Act. Any costs associated with non-compliant placements will be identified and moved to non-Recovery

Act funding sources. We anticipate completion of this recommendation by no later than December 31, 2009.

b. Implementation date: April 2010.

Workforce Development Programs will conduct refresher training for those Regions that plan to implement a Summer Youth Program in 2010. We anticipate that this training will occur in April 2010.

c. Implementation date: May 1, 2010.

Workforce Development Programs will review options for modifying its electronic client database should Recovery Act funds be used for the Summer Youth Program in 2010. We will analyze cost versus return on investment to determine the best solution for obtaining the data needed to track and report work experience placements. Regions will receive training on any changes that are implemented. We anticipate that any needed changes and training would be completed no later than May 1, 2010.

Classification of Payroll Processing Costs

As previously discussed, a work experience is the primary service provided to Summer Youth Program participants and one of several services offered by the WIA Year-Round Youth Program. For the Summer Youth Program, work experience recipients receive wages during their employment, which are 100 percent subsidized by Recovery Act funds. For Year-Round Youth Program participants, wages are 100 percent subsidized by WIA program funding. Thus, local workforce centers must issue paychecks to participants and perform related payroll processing functions, such as determining required withholdings.

Expenditures for the Summer Youth and WIA programs are classified as either *administrative* or *program* costs. According to federal regulations [Section 20 CFR 667.220(a)], to be classified as an *administrative* expense, the cost must meet two criteria: (1) it must be an administrative function, such as accounting, budgeting, cash management, payroll, procurement, or personnel management, and (2) it cannot relate to the direct provision of workforce investment services. Costs directly related to a workforce investment service are *program* costs. We contacted officials at the U.S. Department of Labor for additional clarification on this regulation. According to these officials, the cost for processing work experience payroll is related to the direct provision of workforce investment services and thus is a program cost rather than an administrative cost. Although

payroll processing is typically an administrative function, in this instance the payroll function relates directly to the provision of work experience, which is a workforce investment service, and therefore these processing costs are program costs.

We requested information from all nine Regions about their work experience payroll processes to determine whether centers were classifying payroll processing costs correctly. We found that workforce centers classified payroll processing costs inconsistently. Four of the nine Regions classified payroll processing costs as administrative costs and four Regions classified them as program costs. The remaining Region does not use its WIA funds to pay for payroll processing costs.

The Department should review the cost allocation classifications at each of the Regions and ensure that all payroll processing costs allocated incorrectly are reclassified in accordance with federal requirements. Cost reports previously submitted to the U.S. Department of Labor should be revised and resubmitted. Going forward, the Department should establish adequate controls for ensuring workforce centers allocate administrative and program costs correctly. Specifically, the Department should issue guidance to workforce centers on the proper classification of payroll processing costs for work experience. Further, the Department should review workforce centers' cost allocations to ensure the centers have classified their administrative and program costs appropriately. Developing guidance for allocating costs and reviewing workforce centers' cost classifications will improve the accuracy of cost allocations for all WIA programs statewide.

Recommendation No. 3:

The Department of Labor and Employment should ensure that payroll processing costs are allocated in accordance with federal regulations by:

- a. Developing and issuing guidance to ensure all Regions consistently allocate payroll processing costs for work experience as a program cost, in accordance with federal regulations.
- b. Incorporating this guidance into its current financial internal controls review program and reviewing workforce center cost allocations to ensure compliance with federal requirements.

- c. Working with workforce centers to determine the amount of payroll processing costs incorrectly charged as administrative costs and submitting revised reports to the U.S. Department of Labor.

Department of Labor and Employment Response:

Agree.

- a. Implementation date: December 31, 2009.

Workforce Development Programs will develop additional guidance regarding the allocation of payroll costs for Recovery Act summer work experience to the program cost category. This guidance will supplement previous information provided on cost categories and will be issued no later than December 31, 2009. Workforce Development Programs will follow up to ensure the proper implementation of the guidance.

- b. Implementation date: June 2010.

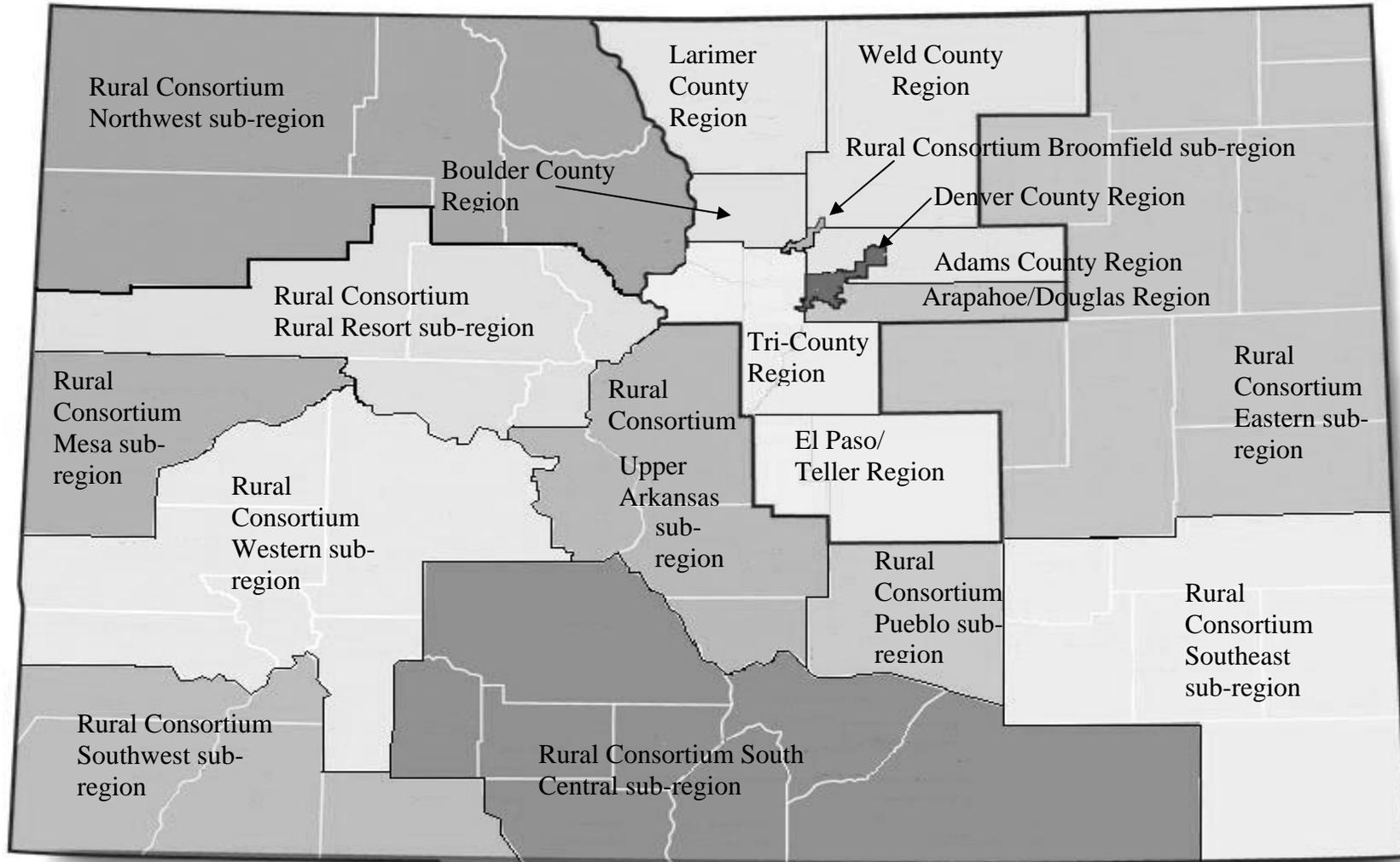
Workforce Development Programs will reemphasize the review of the administrative versus program cost category and include the additional guidance (see Recommendation No. 3a.) within its annual financial review process, which includes oversight of financial internal controls and cost allocation methodologies. The next set of annual reviews will occur between February and June 2010.

- c. Implementation date: February 2010.

Workforce Development Programs will contact Regions that have been identified as incorrectly allocating payroll costs for Recovery Act summer work experience to the administrative cost category instead of the program cost category. We will follow up with these Regions to submit revised expenditure reports in time for the Department to submit its next quarterly report to U.S. Department of Labor, which is due 45 days after December 31, 2009.

Appendix A

Workforce Regions Locations as of October 2009



Source: Department of Labor and Employment

Note: There are nine Workforce Regions in Colorado. County governments operate eight regions and the State operates one. The state-operated region is known as the Rural Consortium and consists of 11 sub-regions located throughout the state.

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