REPORT OF

THE

STATE AUDITOR

Workforce Development Programs

Department of Labor and Employment and Governor's Office of Workforce Development

Performance Audit
June 2003

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June 30, 2003

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the employment and training programs managed by the Office of Workforce Development Programs within the Department of Labor and Employment and by the Governor's Office of Workforce Development within the Department of Local Affairs. 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 and the Governor's Office of Workforce Development.

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OFFICE OF THE STATE AUDITOR **REPORT SUMMARY**

JOANNE HILL, CPA
State Auditor

Workforce Development Programs
Performance Audit, June 2003

Authority, Purpose, and Scope

This performance audit was conducted under the authority of 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 audit was conducted in accordance with generally accepted government auditing standards. Audit work was performed from October 2002 through May 2003.

The audit reviewed the workforce development programs managed by the Department of Labor and Employment and the Governor's Office of Workforce Development. A particular focus of the audit is the federal Workforce Investment Act, the largest program overseen by the Department's Office of Workforce Development Programs, and the Department's interaction with the Governor's Office of Workforce Development. As part of the audit, we evaluated the operations of local workforce investment regions and the Department's oversight of these operations. We conducted site visits to 12 regional workforce centers.

Workforce Development Programs

The Office of Workforce Development Programs is responsible for administering and overseeing a variety of employment and training programs in Colorado that assist both job seekers and employers. The majority of the services administered by the Office are offered through regional workforce centers. The State is divided into the following nine workforce areas - Adams, Arapahoe/Douglas, Boulder, Denver, Larimer, Pikes Peak, Tri-County, Weld, and the Rural Consortium. The Rural Consortium is further divided into the following subregions: Broomfield, Eastern, Mesa, Northwest, Pueblo, Rural Resort, South Central, Southeast, Southwest, Upper Arkansas, and Western. Many of the regions and subregions are operated by local government agencies. However, one region and nine subregions are operated by the Department in areas where local governments have elected not to administer the workforce programs.

One of the primary duties of the Office of Workforce Development Programs is to oversee activities carried out in accordance with the federal Workforce Investment Act (WIA) of 1998 (P.L. 105-220). Under WIA, "one-stop" workforce centers located throughout the State are responsible for delivering all federally funded employment and training services. WIA provides a range of services including core services, such as job search and placement assistance; intensive services, such as in-depth skills

For more information on this report, contact the Office of the State Auditor at (303) 869-2800.

assessments; training assistance, such as vocational skills training; and supportive services, such as gas vouchers and child care assistance.

The Governor's Office of Workforce Development (OWD) provides staff support to the State Workforce Development Council, which is responsible for providing policy direction for the State's workforce system, and for administering a portion of WIA discretionary funds. The Department works closely with the OWD in carrying out the WIA program.

Key Findings

- **WIA expenditures by local workforce regions are not always made in accordance with federal guidelines**. We reviewed 142 WIA case files for clients who received WIA services in State Fiscal Year 2002 and we question expenditures for 40 of them (28 percent). These files did not appear to be in compliance with the federal requirements for providing supportive services and/or training services to clients. The cases involved about $40,000 in supportive services and training expenditures, representing just over 20 percent of the total $195,000 expended for such services in the files we reviewed. In addition, we found 33 files (23 percent of the total reviewed) for clients who were approved for supportive and/or training services, with expenditures totaling $25,000 (13 percent of the total $195,000 reviewed), that did not contain adequate documentation to enable us to determine if the expenditures were in accordance with federal law. The policies and procedures developed by the Department relating to these issues need to be improved.

- **The Department does not use information on per-client spending within the WIA program to target its monitoring efforts.** We identified 288 clients served during Calendar Year 2002 (7.6 percent) who received over $3,500 each in training and/or supportive services, which exceeds the typical limit of about $3,000 set by most regions. In addition, we found one client who received almost $9,000 in supportive services. The Department currently reviews a random sample of case files when it conducts on-site monitoring of the regions and does not target its review to include cases where large expenditures have been made for individual clients. The Department should use per-client data to focus its monitoring efforts in high-risk areas.

- **The Department has not established criteria to help regions determine the availability of funding for purposes of offering priority of service to low-income clients in the Adult program.** Federal regulations state that if funds allocated to a local area for the WIA Adult program are limited, priority for intensive and training services must be given to low-income individuals. The regulations specify that "since funding is generally limited, States and local areas must establish criteria [to] ... determine the availability of funds" and that "States and local areas must give priority to low-income individuals unless the local area has determined that funds are not limited." Although five of Colorado's workforce regions had obligated at least 90 percent of their

WIA Adult funds for State Fiscal Year 2003 by December 31, 2002, and four regions told us they were out of training funds in January 2003, some of these regions still have not begun offering priority to low-income individuals in the Adult program. At the time of our audit, 14 regions and subregions had implemented priority-of-service policies due to limited funding, but the percentage of low-income clients being served is decreasing. In State Fiscal Year 2001, low-income people comprised 75 percent of the total population in the WIA Adult program and 79 percent of those receiving training. By State Fiscal Year 2003, low-income adults made up 57 percent of the total population in the WIA Adult program and 55 percent of those receiving training. The Department has not developed criteria or provided guidance to the regions to help define "limited" funding.

- **The Department has not conducted on-site monitoring of all the subregions and did not monitor all discretionary grants in State Fiscal Year 2002.** WIA requires annual on-site monitoring of all workforce regions to ensure compliance with federal laws and regulations. We found that as of April 2003 the Department had not monitored seven subregions within the Rural Consortium since the inception of WIA in July 2000. The Department is using a rotation schedule to monitor all the subregions over a period of several years. Without adequate, independent assessment of each subregion's operations, the Department does not have sufficient information to use this type of risk-based approach to monitoring. In addition, we found a total of about $1.1 million in federal discretionary grants to the regions were not monitored when the Department conducted its first on-site monitoring cycle in the spring of 2002.

- **The Department could expand its use of various data to evaluate the effectiveness and continuous improvement of the workforce system.** Although the Department collects a variety of information on WIA program participants, it does not use the data to evaluate the system and determine where improvements may be needed. For example, the Department has information that indicates that the proportion of clients who find employment related to the training they received is fairly low (about 60 percent of Adult program clients and about 40 percent of dislocated workers). However, the Department has not investigated these data to determine if they indicate areas where program changes are needed.

- **The Office of Workforce Development (OWD) does not always distribute and use WIA discretionary funds in a timely manner.** The OWD, under direction from the State Workforce Development Council, manages 10 percent of Colorado's annual WIA allotment, which has averaged about $2.1 million each year in State Fiscal Years 2001, 2002, and 2003. We found distribution of funds to the regions is often delayed, reducing the amount of time regions have to use the monies. Specifically, in State Fiscal Years 2001, 2002, and 2003, the OWD rolled forward into the next fiscal year about $1.14 million, $850,000, and $702,000, respectively, or on average, over 40 percent of the total annual budget of WIA discretionary funds each year. Further, as of December 2002, the OWD had not distributed or spent over $275,000 in State Fiscal Year 2001 funds, which must be used by June 30, 2003. Finally, the OWD does not always spend older money first, increasing the risk that some funds will not be used before they expire and will have to be returned to the federal government.

A summary of our recommendations and the responses of the Department of Labor and Employment and the Office of Workforce Development can be found in the Recommendation Locator.

RECOMMENDATION LOCATOR

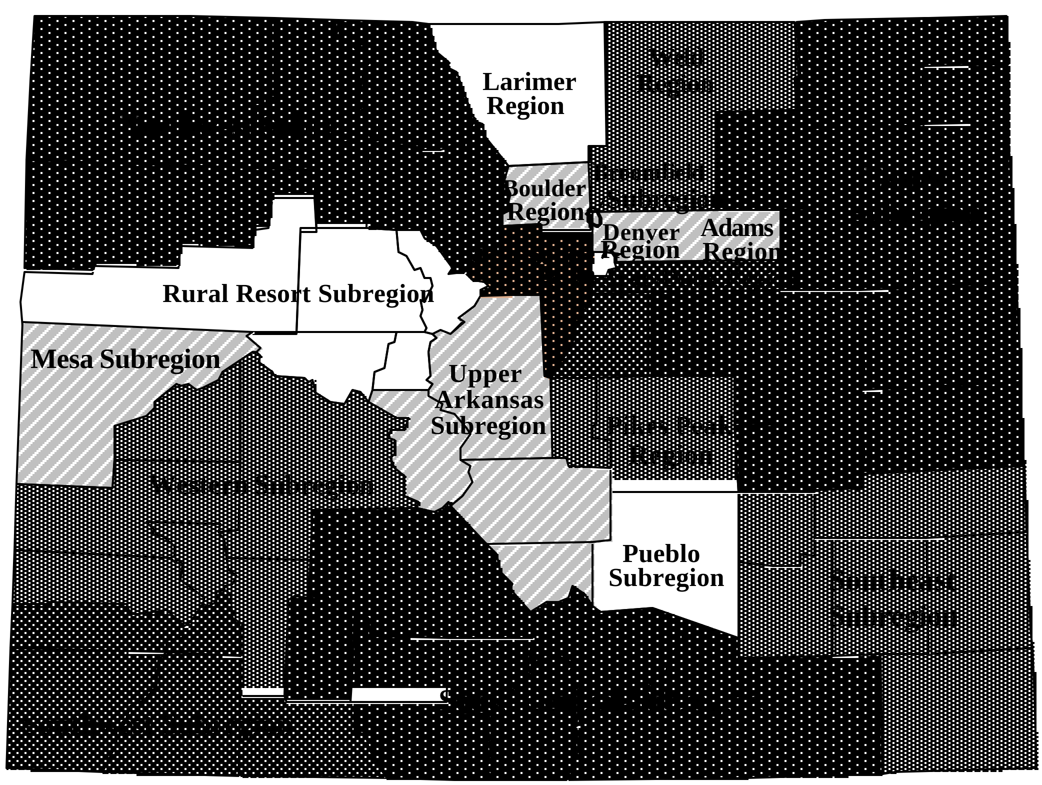
Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	23	Improve controls over the use of WIA funds by Colorado's workforce regions to ensure limited funds are used effectively in compliance with WIA requirements.	Department of Labor & Employment	Agree	January 2004
2	26	Improve monitoring and auditing of the workforce regions by using information on per-client spending to help target oversight efforts.	Department of Labor & Employment	Agree	January 2004
3	29	Clarify the circumstances under which funds can be considered limited or not limited for purposes of offering priority of service to low-income clients in the Adult program.	Department of Labor & Employment	Partially Agree	January 2004
4	32	Improve oversight of the WIA program by implementing procedures to assess workforce center documentation on approving and disapproving WIA clients for training.	Department of Labor & Employment	Agree	January 2004
5	35	Improve compliance monitoring by collecting and analyzing information on all subregions for use in risk-based monitoring, reviewing all discretionary grants, and formalizing monitoring procedures in written guidance and training.	Department of Labor & Employment	Partially Agree	January 2004
6	37	Discontinue monitoring of WIA discretionary grants.	Office of Workforce Development	Agree	July 2003
7	44	Regularly review data from routine reports and use the data as a basis for evaluation studies to promote continuous improvement in the workforce system.	Department of Labor & Employment	Agree	September 2003

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
8	46	Strengthen mechanisms for measuring performance of the regions by renegotiating local performance standards only in accordance with criteria developed by the Department.	Department of Labor & Employment	Agree	Ongoing
9	53	Streamline and simplify the discretionary grant process.	Department of Labor & Employment	Agree	January 2004
10	55	Announce grant opportunities to the regions as soon as the availability of funds is known.	Department of Labor & Employment	Agree	January 2004
11	58	Implement procedures to expedite the distribution and spending of WIA discretionary funds.	Office of Workforce Development	Agree	September 2003
12	58	Improve oversight of WIA discretionary funds by notifying the Office of Workforce Development and the regions of unspent funds within a specified time frame before the end of each fiscal year and reallocating funds not used within the specified time frame.	Department of Labor & Employment	Agree	December 2003
13	61	Improve communication regarding discretionary fund budgets.	Office of Workforce Development	Partially Agree	June 2004
14	62	Improve oversight of WIA discretionary funds by conducting annual audits of the Office of Workforce Development and implementing other measures to provide adequate oversight.	Department of Labor & Employment	Agree	December 2003

Overview of the Office of Workforce Development Programs

The Office of Workforce Development Programs (Office) is located within the Division of Employment and Training in the Colorado Department of Labor and Employment. The Office is responsible for administering and overseeing a variety of employment and training programs in Colorado that assist both job seekers and employers. The majority of the services administered by the Office are offered through regional workforce centers located in the State's nine workforce areas, which are: Adams, Arapahoe/Douglas, Boulder, Denver, Larimer, Pikes Peak, Tri-County, Weld, and the Rural Consortium. The Rural Consortium is then divided into 11 subregions: Broomfield, Eastern, Mesa, Northwest, Pueblo, Rural Resort, South Central, Southeast, Southwest, Upper Arkansas, and Western. The regions and subregions are shown in the following map. Most of the regions are operated by local government agencies and most of the subregions are operated by the Department in areas where local governments have elected not to administer the workforce programs.



Source: Information provided by the Department of Labor and Employment.

The Office of Workforce Development Programs has an annual budget of about $54 million, most of which is federal funding, and about 224 FTE. Additional detail on the Office's budget is included later in this chapter.

The Federal Workforce Investment Act

One of the primary duties of the Office of Workforce Development Programs is to oversee activities carried out in accordance with Title I of the federal Workforce Investment Act (WIA) of 1998 (P.L. 105-220). States began implementing WIA in July 2000 and the program continues to evolve as it becomes more established. The purposes of the Act are to:

- Increase employment, retention, and earnings for participants.
- Increase occupational skill attainment by participants.
- Improve workforce quality.
- Reduce welfare dependency.
- Enhance productivity and competitiveness of the national economy.

Under WIA, "one-stop" workforce centers located throughout the State are responsible for delivering all federally funded employment and training services. These centers assist job seekers with employment preparation and referrals, provide educational and vocational training assistance, recruit employees for businesses facing labor shortages, and provide youth with academic skills and work experience to prepare them for the job market, among other activities. WIA provides a range of services including core services, such as job search and placement assistance; intensive services, such as in-depth skills assessments; training assistance, such as vocational skills training; and supportive services, such as gas vouchers and child care assistance.

WIA also established 17 performance indicators for states and local workforce regions to evaluate program outcomes. According to the U.S. Department of Labor (USDOL), the purpose of these indicators is to set performance goals on a state and local level, to ensure the comparability of state performance results, and to provide information that facilitates program improvement. The indicators measure a range of elements, such as the percentage of clients in the program that obtained employment, retained a job for six months, and reached a specified level of earnings. In June 2003 the Department was recognized by the USDOL as being one of 16 states to exceed its WIA performance standards and become eligible to receive a $1.1 million grant to support innovative workforce development and education programs.

Finally, WIA requires that each state establish a state workforce investment board, known in Colorado as the State Workforce Development Council, to provide general policy and planning guidance to the workforce system. The Governor's Office of Workforce

Development, located in the Department of Local Affairs, provides logistical and staff support to the State Council.

In addition to WIA, the one-stop centers offer basic Employment Services programs to anyone seeking assistance. These programs provide core employment services such as those described above for WIA. As the following table shows, the Employment Services programs serve a large number of clients with core services, while WIA serves a smaller number of clients, focusing on intensive, training, and supportive services. Both employed and unemployed individuals may use services provided through WIA and the Employment Services programs.

Participants Served in Colorado's WIA and Employment Services Programs For State Fiscal Years 2001, 2002, and 2003

Workforce Region	SFY 2001		SFY 2002		SFY 2003[1]	
	WIA	Employ. Services	WIA	Employ. Services	WIA	Employ. Services
Adams	385	15,152	718	25,731	444	18,514
Arapahoe/Douglas	685	19,017	980	37,823	662	21,717
Boulder	171	8,347	229	15,675	180	12,300
Denver	883	24,455	1,232	41,331	992	29,891
Larimer	376	10,531	565	14,521	405	11,593
Pikes Peak	345	18,497	1,130	29,502	1,190	26,789
Tri-County	376	11,081	509	16,484	403	16,222
Weld	266	7,731	474	12,452	367	10,024
Rural Consortium:						
Broomfield Subregion[2]	N/A	N/A	N/A	N/A	N/A	2,757
Eastern Subregion	103	5,225	205	6,401	213	5,450
Mesa Subregion	285	9,669	581	11,267	471	9,006
Northwest Subregion	62	5,331	88	6,699	42	4,804
Pueblo Subregion	375	10,550	562	13,078	404	8,940
Rural Resort Subregion	73	5,565	142	7,939	115	6,396
South Central Subregion	445	8,336	567	8,910	332	6,188
Southeast Subregion	161	5,296	167	5,446	98	4,267
Southwest Subregion	128	7,947	234	7,623	132	5,185
Upper Arkansas Subregion	58	5,194	132	5,987	93	4,789
Western Subregion	158	6,960	229	7,878	63	5,264
Subtotal Rural Consortium	1,848	70,073	2,907	82,097	1,963	63,046
Total - All Regions	**5,335**	**184,884**	**8,744**	**274,747**	**6,606**	**210,096**

Source: Data provided by the Department of Labor and Employment.
[1] SFY 2003 data through January 2003.
[2] Broomfield became a separate subregion in 2002. The Department did not begin tracking separate data for Broomfield until FY 2003.

Finally, local one-stop centers manage other related programs, including job assistance for veterans and the federal Welfare-to-Work program, which provides additional employment-related resources to supplement the welfare reform funds included in the federal Temporary Assistance to Needy Families (TANF) block grant.

Other Employment and Training Programs

The Office of Workforce Development Programs administers several programs from its central location in Denver, including:

- **Trade Adjustment Assistance (TAA) -** The Department serves as the USDOL's agent in administering the TAA program. The USDOL certifies companies that have trade-related layoffs which allows laid-off employees to contact local workforce centers for services such as increased unemployment benefits and expanded access to training.

- **Rapid Response -** Under WIA, states must offer immediate employment and training services to employees of companies conducting large layoffs. Statewide rapid response activities are managed by a central unit within the Department while regional activities are managed by the local workforce centers in areas experiencing significant layoffs.

- **Worker Opportunity Tax Credit (WOTC) -** Through WOTC, employers can apply for a tax credit if they hire individuals with barriers to employment (e.g., criminal offenders, those with educational deficiencies, etc.). The Department must determine employer eligibility for this credit.

- **Labor Certification -** Employers wishing to hire a non-U.S. citizen for a specific job must complete the labor certification process. The Department processes the certification request and announces the position to allow qualified U.S. citizens to apply. The decision to provide a non-U.S. citizen with a visa to work in this country rests with the U.S. Department of Labor.

- **Veterans Work Incentives Program -** When a state accepts Wagner-Peyser funds, it agrees to give veterans priority in employment services. This program provides funds to employ veterans in positions related to workforce development, such as those that conduct outreach for veterans services.

- **Displaced Homemaker -** Under this program, the Department offers grants to workforce regions to provide services through the one-stop centers to homemakers who are forced to enter the workforce.

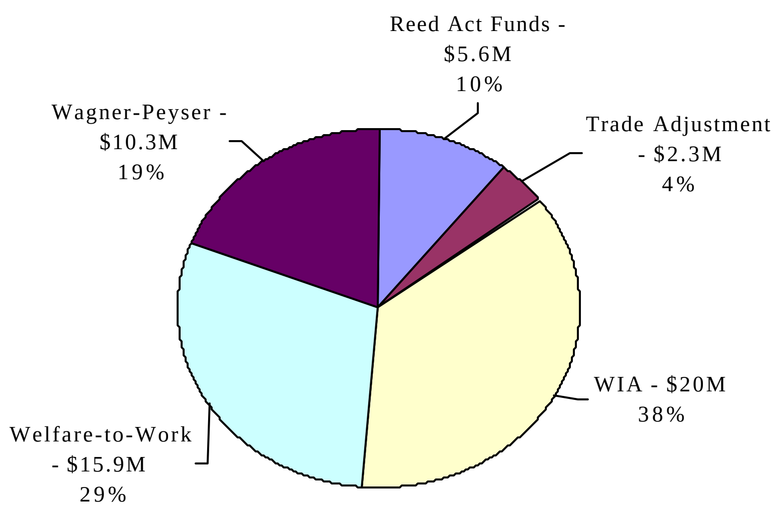
Funding and FTE

Historically, about 90 percent of the funding for programs administered and overseen by the Office of Workforce Development Programs is from federal sources. As the following chart shows, for State Fiscal Year 2003, the largest single source of federal funds is the Workforce Investment Act (WIA), followed by the Welfare-to-Work block grant and the

Wagner-Peyser Act. Until State Fiscal Year 2003, the Employment Support Fund, which contains a portion of the taxes paid by Colorado employers based on the wages they pay, provided the majority of the Office's cash funds, averaging about $5.4 million annually for the past several years. However, in State Fiscal Year 2003 the Department received a supplemental appropriation replacing Employment Support Fund monies with federal Reed Act funds, which can be used for essentially the same purposes.

The Department's Office of Workforce Development Programs was appropriated about 224 FTE for State Fiscal Year 2003.

Funding Sources for the Office of Workforce Development Programs SFY 2003 - $54 Million Total



Source: State Fiscal Year 2003 Appropriations Bill and data provided by the Department of Labor and Employment.

Federal law allows the states three years to spend each annual WIA and Wagner-Peyser allocation. Therefore, for State Fiscal Year 2001, Colorado had from July 1, 2000, through June 30, 2003, to spend these federal funds. The workforce regions are allowed two years to spend their WIA funds and one year to spend their Wagner-Peyser and Employment Support Fund monies. Therefore, for State Fiscal Year 2001, the regions had until June 30, 2002, to spend their WIA allocations and until June 30, 2001, to spend their Wagner-Peyser and Employment Support fund allocations. If the workforce regions do not spend their WIA and Wagner-Peyser allocations within the permitted time frames, the Department reallocates the excess funds among regions needing additional monies.

The following table shows the regional allocations of WIA and Employment Services (Wagner-Peyser and Employment Support Fund) monies for the past three state fiscal years.

WIA and Employment Services Allocations to the Workforce Regions for State Fiscal Years 2001, 2002, and 2003

Workforce Region	SFY 2001		SFY 2002		SFY 2003	
	WIA	Employment Services[1]	WIA	Employment Services[1]	WIA	Employment Services[1]
Adams	$989,387	$714,164	$848,783	$640,550	$835,345	$686,991
Arapahoe/Douglas	$1,068,081	$951,329	$947,192	$931,002	$964,542	$985,098
Boulder	$597,703	$607,767	$497,794	$640,510	$489,241	$570,030
Denver	$2,845,798	$1,370,995	$3,246,872	$1,201,496	$2,764,793	$1,123,980
Pikes Peak	$2,119,863	$952,214	$2,006,789	$904,604	$1,803,193	$899,738
Larimer	$697,619	$702,389	$801,503	$617,139	$625,852	$546,811
Tri-County	$966,096	$604,601	$832,904	$713,430	$807,026	$638,941
Weld	$751,212	$391,984	$618,482	$462,541	$581,676	$423,001
Rural Consortium						
Broomfield Subregion[2]	N/A	N/A	N/A	N/A	$126,955	$200,000
Eastern Subregion	$453,231	$436,496	$373,675	$431,097	$403,018	$410,776
Mesa Subregion	$630,485	$470,685	$572,782	$456,675	$654,261	$455,100
Northwest Subregion	$281,906	$384,700	$236,850	$394,570	$222,880	$364,483
Pueblo Subregion	$1,311,969	$506,838	$1,171,167	$471,917	$1,368,418	$491,580
Rural Resort Subregion	$478,574	$621,128	$390,245	$544,337	$394,496	$462,361
South Central Subregion	$1,129,721	$498,143	$1,080,430	$436,556	$1,049,958	$469,890
Southeast Subregion	$379,627	$436,846	$360,811	$388,366	$419,953	$345,631
Southwest Subregion	$624,471	$480,873	$623,446	$435,563	$534,845	$403,949
Upper Arkansas Subregion	$315,015	$468,835	$275,875	$410,872	$351,919	$362,698
Western Subregion	$755,718	$494,971	$599,430	$441,807	$601,016	$404,375
Subtotal - Rural Consortium[3]	$6,360,717	$4,799,515	$5,684,710	$4,411,760	$6,127,719	$4,370,843
Total - All Regions[3]	$16,396,475	$11,094,958	$15,485,025	$10,523,032	$14,999,385	$10,245,432

Source: Data provided by the Department of Labor & Employment.
[1] These funds include both Wagner-Peyser and Employment Support Fund monies.
[2] Broomfield began to receive WIA and Wagner-Peyser allocations in SFY 2003.
[3] Totals may not agree due to rounding.

Audit Scope

Our audit focused on the WIA and Employment Services programs operated by the local workforce regions under the Department of Labor and Employment's oversight. In particular, we reviewed how services are provided at the local level, how the Department oversees and monitors program activities and the use of funds, how the Department distributes funds to the regions, and how the Governor's Office of Workforce Development manages the discretionary funds for which it is responsible. During the audit we visited five regions and seven subregions around the State and contacted another three regions and three subregions by phone to obtain information on their operations.

As noted above, in June 2003 the Department was recognized by the USDOL for exceeding its statewide WIA performance standards. This accomplishment is a reflection that the Department has met or exceeded the minimum standards for the WIA program. At the same time, WIA charges states with implementing continuous improvement measures. This audit report contains recommendations that are intended to focus the Department's continuous improvement efforts and encourage increased effectiveness in the program beyond the minimum federal standards.

This audit did not include the Welfare-to-Work program which was audited in 2001.

Department Guidance and Oversight

Chapter 1

The Workforce Investment Act (WIA) emphasizes state and local flexibility in providing employment and training services to clients. Its guiding principles give local officials significant authority to establish workforce programs tailored to meet the specific needs of employers and job seekers in local and regional labor markets. At the same time, WIA regulations and state statutes assign responsibility to the Department for oversight of the workforce regions, including providing guidance and monitoring. Specifically:

- 20 CFR part 661.120 (WIA rules) states, "The State should establish policies, interpretations, guidelines and definitions to implement provisions of ... WIA ... [that] are not inconsistent with the Act and the regulations ...."

- Section 8-71-223(2), C.R.S., states, "The Department shall provide ongoing consultation and technical assistance to each work force investment area for the operation of work force investment programs."

- Federal Office of Management and Budget (OMB) *Circular No. A-133: Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D.400(d)(3) states that the Department, as a pass-through entity for federal funds, shall "monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws [and] regulations and ... that performance goals are achieved."

- 20 CFR part 667.410 states, "Each [State] ... must conduct regular oversight and monitoring of [the] ... WIA activities ... of its subrecipients and contractors in order to: (1) determine that expenditures have been made against the cost categories and within the cost limitations specified in the Act ... (2) determine ... compliance with other provisions of ... applicable laws and regulations; and (3) provide technical assistance as necessary and appropriate."

In accordance with WIA's principles of providing a strong role for local workforce investment boards, Colorado's philosophy has been to give the local regions as much control as possible over the program's operations. Within their local authority, the workforce centers use various methods to determine the level of employment services needed by each client. First, all clients must meet basic eligibility criteria to be enrolled in WIA. For the Adult program, clients must be 18 years of age or older. For the Dislocated Worker program, clients must be 18 years of age or older; have been terminated or laid off (or have received a notice of termination or layoff) and be unlikely to return to a previous industry or occupation; or be displaced homemakers. For the Youth program, clients must be aged 14 through 21 years, meet low-income criteria, and have barriers to employment such as being deficient in basic literacy skills. Up to 5 percent of youth served are not required to be low-income if they meet the other eligibility criteria.

Any clients meeting these basic criteria can be offered WIA core services. Clients who cannot obtain employment or a self-sufficient wage through core services may progress to WIA intensive services, such as the development of an individual employment plan, and to training assistance, such as occupational skills training. They may also receive supportive services, such as gas vouchers or child care. Larger workforce centers tend to use a committee approach for approving training: a counselor presents a training proposal for a client and the committee decides whether to approve it. Smaller centers typically allow individual counselors to make training decisions with guidance from their supervisors. The determination to provide supportive services usually occurs when the center offers either intensive or training services to the client.

Although local flexibility is emphasized by WIA, the State is still ultimately responsible for how funds are spent, as noted above. The Department carries out its oversight and monitoring roles by establishing Program Guidance Letters (PGLs) that inform the regions of federal requirements, by assigning a Departmental representative to each region to conduct ongoing monitoring and provide technical assistance, by performing annual on-site compliance monitoring visits to the regions, and by completing yearly financial audits of all regions and subregions.

We reviewed the Department's general oversight, guidance, and monitoring of the regions and noted a number of concerns, as discussed in this chapter.

Controls over Program Expenditures

As shown in the Overview section of the report, the Department has allocated, on average, over $15 million annually in WIA funds to the State's workforce regions in the past three years. Although these funds have allowed the regional workforce centers to provide training and employment services to an average of over 7,000 adult, dislocated worker, and youth clients each year, they are not unlimited and are not sufficient to provide services to everyone who may benefit from them. Department staff estimate that current funding only allows the program to serve about 5 percent of those who could use WIA's services. The lack of funding is further illustrated by the fact that for State Fiscal Year 2003, five of the nine workforce regions had obligated at least 90 percent of their WIA Adult allocations and four had obligated at least 90 percent of their Dislocated Worker allocations by December 31, 2002, or halfway through the fiscal year. Three of these regions, as well as one subregion, indicated that as of January 2003, they could not afford to fund training assistance for any new clients, whatever their level of need, until the next fiscal year because they were out of training money.

Constraints on resources within the WIA program make it critical that the workforce centers use the funds as effectively as possible by making appropriate decisions regarding the type and amount of assistance to provide to clients. If workforce centers use funds for clients who do not need assistance, or to provide assistance that does not promote accomplishment of the program's goals, they diminish the value of the program. We found that the workforce centers sometimes provide services that do not clearly meet the requirements of WIA.

Questionable Expenditures

According to OMB *Circular No. A-133*, which provides guidance for the Single Audit Act, the Office of the State Auditor is responsible for reporting on questioned costs for federal awards. As part of our audit, we reviewed 142 WIA case files from the five workforce regions and seven subregions that we visited across the State. The focus of our review was on evaluating whether expenditures were made in accordance with the WIA rules discussed below. We found that the case files did not always justify that expenditures were made in accordance with these federal guidelines, thus increasing the risk of errors, irregularities, and federal recoveries of unallowable expenditures, and potentially reducing the effectiveness of the funds in accomplishing WIA objectives. We identified concerns with both supportive services and training expenditures for WIA clients, as described below.

Supportive Services: WIA rules at 20 CFR part 663.805 state that supportive services may only be provided:

- To individuals who are unable to obtain supportive services through other programs providing such services; and
- When they are necessary to enable individuals to participate in WIA activities.

Furthermore, OMB *Circular No. A-87,* Attachment A(C)(1)(a), states that expenditures must "be necessary and reasonable for proper and efficient performance and administration of Federal awards."

We reviewed 78 case files for clients who received some type of supportive service. We question expenditures for 27 of the cases (35 percent) which did not appear to be in compliance with the federal requirements that supportive services only be provided when they are necessary for client participation in WIA and are unavailable from other sources. For the most part, we found examples of supportive services that were not justified in accordance with federal regulations in files from WIA's Adult and Dislocated Worker programs, including the following:

- One client who received $2,900 in supportive services to assist with moving expenses associated with a new management-level position. The client had accepted this job before enrolling into WIA and thus did not appear to need any WIA services at all.

- One client who received a total of $1,200 in rent payments for three separate months. It was unclear why the region paid rent for three months when its regional policy was to pay rent no more than once and there was no evidence that this assistance was unavailable from other sources.

- One client who received $1,000 in car repair expenses, although it was unclear that the client was receiving any WIA services at the time this supportive service was provided. As a result, the case does not appear to meet the requirement that the supportive service was necessary for the client to participate in WIA.

- One client who received $822 in mileage reimbursement to travel from the state of Washington back to Colorado. The client attended a training program in Washington and intended to relocate there. The client made the trip during a break in the training program. This expenditure does not appear to meet any of the criteria cited above for supportive services expenditures.

- One client who received $240 in gas vouchers from a workforce center to help with transportation to training classes, even though the file's log notes indicated that the client intended to attend the classes with or without the center's help. The client's intention of attending training without the center's assistance indicates that supportive services were not necessary for this client's participation in WIA, as required by federal rules.

Overall, we question about $11,000 (52 percent) of about $20,700 expended for supportive services in the files we reviewed. Although some of these cases involved small amounts of supportive services funds, many clients receive small amounts on multiple occasions. In addition, we found the existence of questionable costs in cases that were spread throughout the State, which indicates that weaknesses in the determination of need for supportive services is a systemic problem.

Training: 20 CFR part 663.240(b) states that a client's case file must " ... contain a determination of need for training ..." and 20 CFR part 633.310 states that training services are available to adults and dislocated workers who:

- Have been determined to be unable to obtain or retain employment through intensive services.

- Have the skills and qualifications to successfully complete the selected training program.

- Select a training program that is directly linked to employment opportunities in the local area or in another area to which the individual is willing to relocate; and

- Are unable to obtain grant assistance from other sources to pay the costs of such training.

Section 8-71-218.5(2), C.R.S., also establishes criteria for providing training services, stating:

> "Access to training services, as specified in the federal act, shall be available to participants who have met eligibility requirements for intensive services, are unable to obtain or retain employment through such services, are determined ... to be in need of such services, and are eligible for such services as specified in the federal act ...."

We reviewed 89 files for clients who were approved for WIA training services. On the basis of our review, we question expenditures for 13 of the cases (15 percent) that were not clearly in compliance with the federal requirements for providing training services listed above. Some of the questionable files in our sample included:

- One client who received $4,635 in assistance for a computer programming course, despite the fact that the client's region was experiencing large layoffs in high-tech fields and there were no clear employment opportunities directly linked to the training program. Although the client obtained employment after completing the course, there was no indication that the job was related to the training received.

In fact, the case notes showed that the client had not even taken the test to earn certification in this computer program eight months after completing the certification class work.

- One client who received $3,965 in assistance for tools and training as a wooden boat-builder in Washington state. Although WIA permits regions to approve training for classes held in other states, the regions still have an obligation to ensure that training is directly linked to occupations in demand. In this case, the region did not independently verify information provided by the client that boat-building was a demand occupation in Washington. At the time of our review, this client had completed training and obtained employment in Washington that was similar to a former position held in Colorado and unrelated to the training. The client was continuing to pursue training-related employment as well as considering opening a business in an unrelated field.

- One client who received $2,500 in training assistance to pursue a real estate finance course. The client had previously received real estate training through the same workforce center and had not been able to find employment in that field. The log notes documented the counselor's concern that the client would not be successful in finding employment in real estate with the additional training. The client had not obtained employment in the real estate field two years after finishing this additional course.

- One client who received $1,000 in training assistance to attend a preparation course for the police academy entrance exam. The workforce center's assessments of the client revealed limited skills in certain areas, including math and reading, which indicated that the client may not have had the skills necessary to be successful with this training program. At the time of our review, the client had not, 17 months after completing the training, passed the police academy entrance exam in two attempts.

In all, we question about $29,100 (17 percent) of the approximately $174,300 expended for training services in the files we reviewed. Although we cannot project these amounts, or those from the supportive services review, to the entire population of WIA expenditures, the fact that we question costs in cases at 10 of the 12 workforce centers we visited raises concerns about the extent to which funds may be used for supportive and training services that are not entirely justified.

Documentation

In addition to the questioned expenditures described above, we found that some case files did not contain adequate documentation for us to determine if the expenditures were appropriate. Specifically, of the 78 files we reviewed where supportive services were provided to the client, 23 (29 percent) lacked documentation that would allow a reviewer to determine if the expenditure complied with federal requirements for providing supportive services, as described above. Of the 89 files we reviewed where training was approved, 10 (11 percent) lacked documentation that would allow an independent reviewer to determine if the expenditure met the requirements for providing training services. Due to the lack of documentation, we were unable to conclude on whether $5,100 in supportive services (25 percent of the $20,700 we reviewed) and about $19,900 in training services (11 percent of the $174,300 we reviewed) were justified in accordance with WIA rules.

As noted above, one reason it is critical for WIA funds to be used as directed by federal rules is that there are insufficient resources to serve all clients who may need or benefit from employment and training services. An additional concern is that many people who receive training services do not find employment that is related to their training. WIA requires that training provided to clients be directly linked both to occupations in demand and to a client's skills. As a result, we would expect that there would be a relatively high correlation between training and job placement if the WIA rules are followed. However, according to Department data, in State Fiscal Year 2002, only 57 percent of adults and 36 percent of dislocated workers obtained employment related to their training. These statistics do not include clients who received basic, prevocational classes like the GED, ESL, or certain basic computer skills classes; they reflect clients who have chosen specific training programs that should be linked directly to employment opportunities as required by WIA. Although it is reasonable to expect that some clients will not obtain jobs specifically pertaining to the training they receive, these data suggest that the training programs approved by the regions are not always necessary or appropriate for clients to obtain employment, which may mean that the regions are not spending their training funds effectively.

We believe one reason workforce centers may not always strictly apply WIA rules in approving and documenting training and supportive services is that the Department's policies and guidance on this issue are incomplete. Although the State has issued Program Guidance Letters (PGLs) that discuss determining and documenting the need for training and supportive services, we found the letters lack some essential information. Specifically, none of the PGLs:

- State that WIA case files must contain a determination of the need for training, as stipulated by WIA rules.

- Provide guidance on how to determine and document that training is provided only to clients who cannot obtain a job through intensive services and that the training is directly linked to employment opportunities.

- Mention that supportive services are available only when the services are "necessary," as stipulated in WIA rules, or otherwise provide guidance as to what makes supportive services "necessary" for a client to participate in WIA.

- Require documentation to show that the regions referred a client to other sources for supportive services or that other assistance was not available.

Providing such direction is an appropriate role for the Department, which, according to 20 CFR part 661.120(b), should "establish policies, interpretations, guidelines, and definitions" to implement WIA's provisions. The Department has provided this type of guidance with regard to determining and documenting basic program eligibility (meaning the age, employment status, and income status eligibility requirements described on page 16 of this chapter). For example, PGL #01-03-WIA1 includes a technical assistance manual on determining eligibility that specifies what documents meet WIA's requirements for justifying eligibility and suggests how to use those documents to determine basic eligibility. We did not identify a problem with regions serving clients who did not meet these basic eligibility criteria during our file review, which may indicate that specific guidance is effective in helping the regions accurately apply WIA requirements.

In addition, we found the local workforce regions have not developed any criteria to define and document the need for intensive and training services. We reviewed all the regional policies on WIA training and supportive services and did not find any that contained specific language to define what demonstrated "need" or "justification" for these services. Some regions reported to us that they do not consider "need" to mean only financial necessity, but also consider need to include logistical necessity, meaning that, for example, they may provide gas vouchers if a client will be driving his or her car to apply for jobs, regardless of the client's financial situation.

Finally, since the Department has not established specific policies regarding the need for clients to receive training or supportive services, Department staff do not have specific guidance for monitoring this issue. As a result, the state field representatives who monitor the regions have not consistently identified the lack of justification as a problem. Between March and June of 2002, the state field representatives conducted on-site compliance reviews of eight of the workforce regions and three of the subregions. These reviews covered the regions' operations for State Fiscal Year 2001 and the first half of Fiscal Year 2002. We reviewed all 11 of the reports resulting from these reviews and found that five noted a lack of justification for training services and three noted concerns with supportive services expenditures. The Department has provided technical assistance and training to address these issues but has not modified its written policies or guidance to improve justification systemwide. As monitors and technical assistants, the state field representatives are in an ideal position to both note weaknesses in the regions' processes and identify appropriate solutions. They could use their familiarity with the regions to develop appropriate guidance regarding justification for services that would integrate into the processes currently in place.

Appropriately determining the need for services is critical to promote effective use of WIA funds and achievement of the Act's goals and performance measures. Documentation of the determination is important to provide evidence of compliance with federal requirements including WIA provisions and OMB standards, such as *Circular No. A-87*, which lists factors for determining the reasonableness of costs, including whether they follow the requirements of "sound business practices" and demonstrate that the regions "acted with prudence" in fulfilling their responsibilities. Documentation also allows for evaluation, by the regions, the Department, and the federal government, of the appropriateness of expenditures to minimize the risks of fraud and maximize the effectiveness of the programs.

We believe the Department should work with the regions to ensure the most effective use of limited resources. The Department should offer additional guidance to the workforce regions on how they should determine and demonstrate in their case files that clients need training and/or supportive services. For training services, this guidance should address all of WIA's training criteria, and for supportive services it should address all of WIA's supportive services criteria. In addition, the Department should require the regions to establish local policies that are consistent with the Department's guidance and should monitor the regions in accordance with these State and local policies.

Recommendation No. 1:

The Department of Labor and Employment should improve controls over the use of WIA funds by working with the regions to ensure that limited funds are used effectively in compliance with WIA requirements and to promote achievement of WIA's goals. This effort should include:

a. Revising policies on training and supportive services to provide additional guidance to the regions in determining and documenting the need for such services in each case. This guidance should address all the criteria contained in federal regulations that apply to the provision of training and supportive services.

b. Ensuring that regions adopt policies and practices consistent with the Department's additional guidance through its monitoring efforts.

Department of Labor and Employment Response:

a. Agree. The Department anticipates completion of this recommendation by December 31, 2003, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change federal requirements regarding training and supportive services. In this event, the Department anticipates completion of this recommendation within 90 days of the publication of the final regulations governing the new legislation.

b. Agree. The Department anticipates implementation of this recommendation during its annual compliance monitoring process, which occurs between January and June of each program year. This will begin in January 2004, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change federal requirements regarding training and supportive services. In this event, the Department anticipates completion of this recommendation in the first annual compliance monitoring cycle that follows the publication of the final regulations governing the new legislation.

Monitoring of Per-Client Spending

Although there are no state or federally imposed limits on the amount of training or supportive services assistance a client may receive, many regions have established caps on the amounts they will typically offer a client. Local limits, which have been set by the regions to help them spend their limited funds as effectively as possible, are generally no more than $3,000 per client for training. For supportive services, none of the regions have specific, per-client dollar limits, but six of the nine regions do have dollar limits for specific services, such as gas vouchers or child care. These six regions indicated that they may exceed their stated limits if they feel the additional expenditures are needed.

As part of our audit, we attempted to evaluate per-client costs within the WIA program, in part to determine the range of expenditures and to identify clients who received assistance that exceeded the typical maximums set by the regions. We requested from the Department a list of individuals served through WIA since its inception as well as the amount of training and/or supportive services assistance each participant has received. We found that the Department does not compile data on a per-client basis, nor can all of the local regions easily produce these data. The Department was able to provide some detailed data on clients who received training or supportive services in Calendar Year 2002, including estimated amounts for the services provided. In addition, we were able to obtain a list of clients served and the amounts of assistance they received since WIA's inception for one region. From the information provided by the Department, we identified 288 clients out of 3,783 served (7.6 percent) who received over $3,500 in training and/or supportive services during Calendar Year 2002. From the detailed data provided by one region, we found one client who received almost $9,000 in supportive services alone.

Although these expenditures may be justified, they should be targeted for review by the Department because they may indicate a lack of compliance with local policies or a misuse of funds. Regularly reviewing data on per-client spending would strengthen the Department's fiscal oversight of the regions and help ensure the proper expenditure of federal funds. Specifically, the Department's state field representatives should use these data to select at least a portion of their samples of case files for review during on-site monitoring. Currently the field representatives randomly select files for review. However, by reviewing per-client spending data before they begin the on-site review, the state field representatives could target for review those cases where the regions have expended higher dollar amounts. This would allow them to focus efforts in areas where errors, irregularities, or fraud have the potential to do the most damage in terms of the amounts being spent inappropriately and having to be recovered. For example, it would be more critical for the Department to identify that a region misspent $3,000 on a training program than to find a mistakenly issued $20 gas voucher. Another benefit of such an approach is that the Department would achieve greater coverage in its monitoring because by focusing on higher-cost clients, it would naturally be reviewing a higher percentage of total expenditures.

In addition, reviewing per-client spending data would help the Department assess whether regions are treating all their clients fairly by consistently adhering to the self-imposed limits and granting exceptions in a nondiscriminatory manner. Since regions receive a fixed WIA allocation and cannot provide training and supportive services to all clients who need them, if the regions spend funds inappropriately, some deserving clients may not receive assistance. As mentioned before, our concern is underscored by the fact that four of the nine workforce regions could not enroll new clients into training programs between January and June 2003 because they had run out of training funds.

According to Department staff, the regions should be able to provide per-client data on request. We believe the Department should require that such data be provided routinely at the beginning of on-site monitoring visits and audits, at least for clients who have received services costing in excess of local limits. Department staff should review the data and use it to identify particular cases that should be reviewed during on-site visits.

Recommendation No. 2:

The Department of Labor and Employment should improve its monitoring and auditing of the workforce regions by:

a. Requiring regions to make available specific per-client spending data to the Department at the beginning of each on-site monitoring or auditing visit, at least for clients who have received services costing in excess of local limits.

b. Reviewing the per-client data to identify cases with particularly high amounts of services and including such cases in its file and documentation reviews along with random file samples.

Department of Labor and Employment Response:

a. Agree. Implementation: January 2004. The Department anticipates implementation of this recommendation during its annual compliance monitoring process, which occurs between January and June of each program year.

b. Agree: Implementation: January 2004. The Department anticipates implementation of this recommendation during its annual compliance monitoring process, which occurs between January and June of each program year.

Priority of Service for Low-Income Adult Clients

The WIA Youth and Adult programs recognize the importance of providing employment and training services to low-income clients. In the Youth program, low-income status is one of the basic eligibility criteria. In the Adult program, service priority must be given to low-income individuals whenever funds are limited. Specifically, 20 CFR Part 663.600 states:

> ... in the event that funds allocated to a local area for adult employment and training activities are limited, priority for intensive and training services ... must be given to recipients of public assistance and other low-income

> individuals .... *Since funding is generally limited*, States and local areas *must* establish criteria by which local areas can determine the availability of funds and the process by which any priority will be applied .... States and local areas *must* give priority for adult intensive and training services to recipients of public assistance and other low-income individuals, unless the local area has determined that funds are *not* limited .... (Emphasis added.)

The rule goes on to say that the local workforce board and the Governor may establish processes that allow the regions to serve other clients while still giving low-income persons priority. However, the regulations indicate that, by default, funding should be considered limited unless determined otherwise in accordance with specific criteria. This approach seems appropriate for Colorado because Department staff have indicated that current funding only allows it to serve about 5 percent of those who could use WIA's services. In addition, as noted earlier, a number of regions were running short of training funds halfway through State Fiscal Year 2003. Specifically, five of the nine workforce regions had obligated at least 90 percent of their WIA Adult funds for State Fiscal Year 2003 by December 31, 2002. Three of these regions, as well as one subregion, reported to us in January 2003 that they had no funds remaining at that time for training assistance for new clients.

We found that the State has not established criteria to help local areas determine the availability of funds, as required by federal regulation, and has not provided any guidelines to help define "limited" funds. Instead, according to PGL #00-12-WIA1, the Colorado Workforce Development Council has issued a policy stating that the workforce regions will make the determination of whether their Adult program dollars are limited. The PGL does not mention the section of WIA rules noted above that states "... State and local areas must give priority ... to ... low-income individuals, unless ... [they have] determined that funds are not limited."

In addition, we noted problems with some local policies on this issue. Specifically:

- Four regional policies conflict with the section of WIA rules that clearly states that local areas *must* give priority to low-income individuals unless they have determined that their funds are *not* limited. These regions' policies state the reverse -- that they will *not* give priority to low-income individuals unless they determine their funds *are* limited at some future point.

- Most regions have not established specific criteria to determine the availability of funds, and their policies on priority of service are generally vague. One region, for example, has a policy to prioritize service whenever "the volume of customers seeking intensive services exceeds the resources available, as determined by the ability to provide services in a reasonable time frame," without defining "reasonable time frame." Another region's policy is to prioritize service when "it appears that funding will be insufficient to cover projected expenditures." The ambiguity of this wording makes it difficult to know under what fiscal conditions the region would begin prioritizing service.

- Two regions with policies that appear to mandate a priority system at all times reported to us that they have not consistently implemented such a system.

We spoke with the State's federal monitor for WIA, who confirmed that WIA rules state that funding should generally be considered limited, but also pointed out that the determination of funding availability is made by the states and workforce regions. The Department has requested federal guidance on this issue, but the response from the USDOL did not clarify whether funds should be considered limited unless there is a determination otherwise in accordance with established criteria.

As a result of the vague and conflicting criteria relating to limited funding and priority of service, we found that many of the workforce regions and subregions have only recently begun to consider their funds limited and therefore give priority for services to low-income participants in the Adult program. We contacted 18 of the State's 19 regions and subregions and reviewed their policies for determining limited funding and priority of service for low-income adults. We found only six regions and subregions had priority of service systems in place when WIA went into effect on July 1, 2000; four regions and subregions had invoked their priority-of-service policies by the end of State Fiscal Year 2002; and another four implemented priority of service systems in State Fiscal Year 2003. Therefore, 14 of the 18 regions and subregions we contacted had implemented their priority-of-service policies at the time of our audit, while 4 had not. Three of the four regions that had not implemented priority of service systems at the time of our audit, and two of the four that invoked their systems in State Fiscal Year 2003, were running low on Adult funds by the end of December 2002, as noted above.

Although many of the regions have responded to the increasing demands on their Adult programs by putting low-income priority systems for adults in place, the percentage of low-income clients being served is decreasing. In State Fiscal Year 2001, low-income people comprised 75 percent of the total population in the WIA Adult program and 79 percent of those who received training services. By State Fiscal Year 2003, low-income adults made up 57 percent of the total population in the WIA Adult program and 55 percent of those receiving training services. Therefore, low-income adults are no more likely to receive training services now, when the number of clients has grown nearly 175 percent from State Fiscal Year 2001 to 2003 and WIA adult allocations to the regions have decreased about 19 percent, than they were at the beginning of the program.

That the local regions have not consistently given priority to low-income clients in the WIA Adult program is ultimately a concern because some individuals most in need of intensive and training services may not be receiving them. Section 195(1) of WIA states: "Each program under this title shall provide employment and training opportunities to those who can benefit from, and who are most in need of, such opportunities ...." Although low-income individuals are not the only persons who may need WIA services, their low-income status means they are inherently less likely than more affluent clients to have the financial resources to obtain training or job preparation services on their own.

Ensuring that the workforce regions give priority to low-income individuals in the WIA Adult program, unless their funds have been determined to be unlimited as specified by federal rules, would also help the State fulfill one of WIA's stated purposes, reducing welfare dependency. By giving low-income individuals better access to services that could assist them in obtaining employment, the regions could reduce these clients' need for public assistance. In short, giving priority to low-income individuals in the Adult program makes sense from a public policy perspective.

We recognize that other programs, such as Welfare-to-Work and Temporary Aid to Needy Families (TANF), offer some assistance similar to WIA. However, WIA allows for a broader definition of "low-income" so that economically disadvantaged individuals who do not qualify for programs like TANF can be assisted through WIA without duplication of services. WIA also encourages coordination with these other programs so that funds can be leveraged to produce better results.

Finally, consistently maintaining priority systems is important because WIA funding levels can fluctuate. According to the Department, preliminary figures from the USDOL indicate that Colorado's WIA allocation for State Fiscal Year 2004 will increase by $7 million over 2003. Although the regions may be inclined to discontinue their priority systems in light of this increased funding, it is unlikely that these additional resources will be sufficient to provide services to all clients who need them, so funding will still be limited.

Recommendation No. 3:

The Department of Labor and Employment should clarify the circumstances under which funds can be considered limited or not limited for purposes of offering priority of service to low-income clients in the Adult program by:

a. Developing criteria to help the regions determine the availability of funds.

b. Working with the regions to expand and clarify regional policies to be consistent with the Department's criteria and to contain specific criteria for determining funds availability.

c. Ensuring that the regions maintain priority systems for low-income clients in the Adult program unless the regions demonstrate that funds are not limited in accordance with state and local criteria.

Department of Labor and Employment Response:

a. Disagree. Because Colorado has a long-established policy of local control of workforce programs, the Department stands by its policy to allow local workforce investment boards to set their own priority of service criteria and policies.

b. Agree. The Department agrees with providing additional technical assistance as needed to regions wishing to further define criteria for identifying when funds are limited. The Department anticipates completion of this recommendation by December 31, 2003, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change federal requirements regarding priority of services. In this event, the Department anticipates completion of this recommendation within 90 days of the publication of the final regulations governing the new legislation.

c. Agree. The Department anticipates implementation of this recommendation during its annual compliance monitoring reviews, which occur between January and June of each program year. This will begin in January 2004, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change federal requirements regarding priority of services. In this event, the Department anticipates completion of this recommendation in the first annual compliance monitoring cycle that follows the publication of the final regulations governing the new legislation.

Auditor's Addendum:

This is not an issue of local control. We agree that Colorado's program promotes local design and implementation. The issue addressed in this recommendation

is prioritizing the use of limited funding for the benefit of those with the greatest financial need, in line with WIA rules and objectives.

Oversight of Funding Decisions

Most workforce centers use the Employment Services (ES) program to provide core services and do not enroll clients into WIA unless the client needs intensive or training services. Case files are set up for each client only when he or she receives a WIA service. Limited electronic records and no paper files are generally maintained for clients receiving only core services through the ES program. As a result, there is a lack of documentation at most workforce centers for clients who may have sought training services but been denied.

Without records on clients denied WIA training services, we could not determine:

- The number of approved versus nonapproved clients or whether there were any clients who were not approved for training. Most of the regions we visited have used a first-come, first-served approach, and several workforce centers indicated that once their training funds are depleted for a year, clients seeking training assistance are advised to return the following year. The centers do not keep records for such clients until they actually receive services, so there is no information on the number of clients turned away.

- Whether centers were using criteria to approve or disapprove training proposals that were reasonable and consistent. Although we could see what criteria regions relied upon to approve training requests, we could not tell if they used the same criteria in rejecting proposals because information about rejected requests is not maintained.

The lack of information on clients who were denied training hinders the Department in its monitoring role. 20 CFR part 667.410 requires the Department to ensure that local areas' policies are meeting the objectives of WIA. The objectives for training services are to provide them to people who need them to obtain employment, who have the skills to successfully complete the training, and who have selected a program directly related to employment opportunities. In addition, Section 195(1) of WIA requires that regions provide training opportunities to those most in need. To effectively monitor the regions' compliance with WIA requirements, the Department must have information on all the funding decisions by the workforce centers. Without data on cases where the centers did not approve training services, the Department cannot tell if those rejections occurred because the client's case failed to meet the criteria for approval. As a result, the Department cannot ensure that the regions always use the same criteria when making their funding decisions.

Several regions reported that they keep individual files for clients who are denied WIA training services, at least temporarily. However, they do not maintain any type of listing of these clients. Without a mechanism to track such clients, internal regional monitors and the state field representatives are hindered in their ability to select and review files for these clients when they monitor the regions. In addition, two regions we contacted do maintain spreadsheets detailing why clients were not approved for training assistance, but many regions keep records only for clients who are approved.

We recognize that the regions must make judgments about who they serve because they do not have unlimited funds and cannot offer training services to every WIA enrollee. These decisions should be documented by the regions and reviewed by the Department as part of its monitoring program. By ensuring that these judgments are consistent and in accordance with the goals, objectives, and requirements of WIA, the Department would fulfill an important oversight function for the State's workforce system.

Recommendation No. 4:

The Department of Labor and Employment should improve its oversight of the WIA program by implementing procedures to assess workforce center documentation on approving and disapproving WIA clients for training. The Department should:

a. Provide technical guidance to the regions regarding methods to systematically document decisions to deny training services.

b. Include a review of denied clients during its annual on-site monitoring. This review should compare clients who were approved for training with those who were not to determine if the region's decisions are consistent and in accordance with the goals, objectives, and requirements of WIA.

Department of Labor and Employment Response:

a. Agree. The Department anticipates completion of this recommendation by December 31, 2003, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change federal requirements regarding training services. In this event, the Department anticipates completion of this recommendation within 90 days of the publication of the final regulations governing the new legislation.

b. Agree. The Department anticipates implementation of this recommendation during its annual compliance monitoring reviews, which occur between January and June of each program year. This will begin in January 2004, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change federal requirements regarding priority of services. In this event, the Department anticipates completion of this recommendation in the first annual compliance monitoring cycle that follows the publication of the final regulations governing the new legislation.

Comprehensive Monitoring

Formal on-site monitoring reviews of the regions are conducted annually by the Department's state field representatives. They use a formal monitoring tool as a guide for interviewing workforce center staff and examining local policies and case files. We reviewed the monitoring tool, a sample of monitoring files, and all the reports prepared by the state field representatives from their monitoring of the regions for State Fiscal Year 2002. We noted a number of concerns with the monitoring process.

Reviewing Case Files in All Subregions. In their monitoring of the Rural Consortium Region, the state field representatives did not review case files from 7 of the 10 subregions operating during the review period of July 2000 through December 2001 (Broomfield was not fully operational during the period and is not included in the count of 10 subregions). The Department selected three of the subregions to review, focusing on regions that were less experienced in providing employment and training services, or that had experienced problems prior to the time of the monitoring reviews. In addition, the Department indicated that resource constraints require some prioritization of monitoring efforts and that it will rotate Department-level reviews to cover all the subregions over a period of several years.

Federal law does not require all subregions within a region to undergo an annual on-site review and we agree that targeting resources is important. However, we believe that in order to implement a reliable risk-based monitoring system, the Department needs to collect and analyze independent information on how all the subregions are operating. Without conducting some on-site monitoring of all the subregions, the Department is limited in the information available for this purpose. For example, we reviewed files at six of the eight subregions that were not monitored and we question WIA expenditures at five of them, as discussed earlier in this chapter. The rural subregions that were not monitored by the Department represent 23 percent of the files for which we question training expenditures and 33 percent of the files for which we question supportive services expenditures. This kind of information is important for the Department to have in determining the timing and frequency of on-site reviews of the subregions.

Monitoring All Discretionary Grants. In reviewing the state field representatives' monitoring files and reports, we did not find evidence that they had monitored some of the discretionary grants when they conducted their annual on-site visits to the regions in the spring of 2002. The Department reserves a portion of WIA and Wagner-Peyser funds each year and uses some of the reserved amounts, as well as other state and federal funds, to offer discretionary grants to the workforce regions. Funds reserved from the WIA Adult and Youth grants are administered by the Governor's Office of Workforce Development, while the other reserved and additional amounts are managed by the Department. In State Fiscal Year 2003 the Department and the Office offered about $6 million in discretionary funding to the regions from these sources. Discretionary grants are described in greater detail in Chapter 3, where funding issues are addressed in detail.

We could find no evidence that the state field representatives had monitored about $600,000 in discretionary grants during on-site monitoring visits to the regions in March through June of 2002. An additional $500,000 of discretionary grants were not monitored because the Department did not conduct on-site monitoring of seven of the subregions in the Rural Consortium, as mentioned above. Department staff stated that the state field representatives are only required to review grants that directly provide client services. While the Department's PGL on monitoring does state that "on-site monitoring will consist of ... examination of case files for each program and discretionary grant that provides client services," it also states that on-site reviews will be done for each WIA funding stream, including discretionary grants. Furthermore, we found some OWD grants that directly serve clients that were not monitored during the on-site visits.

Duplication of Monitoring. Both Department and Office of Workforce Development (OWD) staff conduct some on-site monitoring of the WIA discretionary grants. In State Fiscal Year 2003, OWD contract staff began conducting on-site visits to all regions with OWD discretionary grants to assess the status of grant projects. There were 14 regions with WIA discretionary grants in effect during State Fiscal Year 2003. Time records are not maintained to specifically track how these contract staff spend their time, but according to data provided by the OWD, we roughly estimate these staff will spend at least 180 hours during this state fiscal year monitoring the WIA Adult and Youth discretionary grants at a cost of about $7,000. Since the state field representatives must visit the regions annually to conduct monitoring, it is more cost-effective for them to review all grants rather than having OWD pay for additional staff to carry out essentially the same duties. According to the Department and OWD, beginning in July 2003 the OWD will no longer have staff conducting on-site monitoring of the grants and the state field representatives will take on those monitoring duties.

Consistent Monitoring Procedures. Although the same monitoring tool is used for all annual workforce compliance reviews, we found some variations in monitoring procedures that can lead to a lack of sufficient oversight. Specifically, we found:

- **Variations in how the state field representatives verified that regions had required policies and Memoranda of Understanding (MOUs) in place.** In accordance with Department requirements, all regions must have written policies addressing a variety of program elements. According to WIA regulations, local regions must have written MOUs with all WIA partner programs (such as postsecondary vocational education programs and veterans workforce programs). We found instances in which state field representatives indicated they reviewed a sample of policies or MOUs, rather than reviewing all, which may not provide adequate oversight. For example, we found one region did not have one of the required written policies at the time of our audit, although the monitoring report for the region indicated that all policies had been reviewed by the field representative. Furthermore, noncompliance with the federal requirement for MOUs could result in ineligibility for state incentive grants.

- **Inconsistencies in how the state field representatives assessed the region's compliance with its own policies.** Five monitoring reports did not indicate that the region was in compliance with its own policies. According to Department staff, compliance with local policies should be evaluated during the monitoring reviews.

We believe the Department should take steps to ensure that its monitoring process is comprehensive and consistently applied by including some file reviews at each Rural Consortium subregion each year, monitoring and documenting the review of all discretionary grants, and formalizing monitoring procedures in a written format.

Recommendation No. 5:

The Department of Labor and Employment should improve its compliance monitoring process by:

a. Collecting and analyzing data on the operations of all subregions to use in developing a reliable risk-based system for subregion monitoring. This effort should include reviewing some case files from each subregion for the first several years of operation to provide a baseline of information for future risk-based reviews.

b. Ensuring that all discretionary grants provided to the regions and subregions are monitored by the state field representatives in their annual monitoring visits to the regions and that the monitoring is documented.

c. Promoting consistency in monitoring by formalizing procedures in written guidance and training for the state field representatives.

Department of Labor and Employment Response:

a. Disagree. The Department field representatives will monitor the Rural Consortium internal monitoring reports for each sub-region annually. On-site monitoring will occur in subregions selected on the basis of a risk analysis. The U.S. Department of Labor has agreed with the Department's approach to monitoring the subregions of the Rural Consortium.

b. Agree. The Department anticipates implementation of this recommendation during its annual compliance monitoring reviews, which occur between January and June of each program year. This will begin in January 2004.

c. Agree. The Department anticipates completion of this recommendation by December 31, 2003, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change substantially change program requirements. In this event, the Department anticipates completion of this recommendation within 90 days of the publication of the final regulations governing the new legislation.

Auditor's Addendum:

As noted in the report narrative, we agree that using a risk-based system can be a cost effective approach to monitoring and we recognize that the Department is not required by federal regulation to conduct on-site monitoring of all subregions each year. Part "a" of the recommendation does not address compliance with federal regulations. It focuses on the need for the Department to collect and use data about the subregions, through independent monitoring in the first few years of the program, to provide a baseline on which to assess risk for future monitoring efforts. Having such information is particularly important because the audit

found questioned costs at five of six subregions that were not monitored by the Department in its State Fiscal Year 2002 on-site monitoring process.

Recommendation No. 6:

The Office of Workforce Development should discontinue its monitoring of the WIA discretionary grants.

Office of Workforce Development Response:

Agree. The Office will no longer conduct separate monitoring of discretionary grants as of July 1, 2003. The OWD will formally request that the Workforce Development Programs office of the Colorado Department of Labor and Employment assume responsibility to monitor discretionary grants awarded by the Colorado Workforce Development Council.

Performance Accountability

Chapter 2

The Workforce Investment Act (WIA) established 17 performance indicators for states and local workforce regions to evaluate program outcomes. According to the U.S. Department of Labor (USDOL), the purpose of these indicators is to set performance goals on a state and local level, to ensure the comparability of state performance results, and to provide information that facilitates program improvement. The indicators measure a range of elements, such as the percentage of clients in the program that obtained employment, retained a job for six months, and reached a specified level of earnings.

As required by law, the USDOL negotiated with each state to establish statewide standards for each indicator. Once set, Colorado's standards have increased one percentage point each year from State Fiscal Year 2001 through 2003. As the following table shows, in State Fiscal Year 2001 the State exceeded all of its negotiated performance standards and in State Fiscal Year 2002, exceeded all standards except the Adult Earnings Change and Dislocated Worker Earnings Replacement Rate measures.

Colorado's Negotiated and Actual WIA Performance Levels State Fiscal Years 2001 and 2002					
Program	**Performance Indicator***	**FY01 Negot.**	**FY01 Actual**	**FY02 Negot.**	**FY02 Actual**
Adult	1. Entered Employment Rate	62.2%	70.5%	63.2%	75.5%
	2. 6-Month Retention in Employment	71.0%	77.8%	72.0%	79.2%
	3. Average Earnings Change in 6 Months	$2,788	$3,948	$2,838	$2,419
	4. Entered Employment & Credential Rate	50.0%	58.5%	51.0%	59.7%
Dislocated Worker	5. Entered Employment Rate	71.5%	78.9%	72.5%	82.6%
	6. 6-Month Retention in Employment	85.0%	89.4%	86.0%	89.0%
	7. Earnings Replacement Rate in 6 Months	88.8%	91.8%	89.8%	87.1%
	8. Entered Employment & Credential Rate	50.0%	67.4%	51.0%	64.2%
Older Youth (ages 19-21)	9. Entered Employment Rate	55.2%	76.5%	55.7%	68.4%
	10. 6-Month Retention in Employment	69.3%	77.8%	69.8%	74.2%
	11. Average Earning Change in 6 Months	$2,100	$3,096	$2,150	$2,693
	12. Entered Employment & Credential Rate	40.0%	48.8%	41.0%	44.0%
Younger Youth (ages 14-18)	13. Basic Skills Attainment Rate	60.0%	83.4%	61.0%	81.8%
	14. Diploma/Equivalent Attainment Rate	50.0%	54.3%	51.0%	53.8%
	15. Placement and Retention Rate	44.0%	61.1%	45.0%	56.8%
	16. Customer Satisfaction for Participants	68.0%	79.5%	69.0%	79.5%
All Programs	17. Customer Satisfaction for Employers	66.0%	78.8%	67.0%	75.0%

Source: Data provided by the Department of Labor and Employment.
***** A more detailed explanation of each performance measure can be found in Appendix A.

For State Fiscal Year 2003 to date, the State is exceeding 11 of its negotiated performance standards and has reached 76 to 88 percent performance on the remaining 6 standards.

Evaluating and Improving Outcomes

In addition to the performance measures data required by the USDOL, the Department routinely collects other statistics on Colorado's WIA participants and programs. These data include client economic status, educational level, and demographics (e.g., ethnicity and age), as well as the types of services these clients receive. The Department produces a number of routine reports that summarize these data. Examples of these reports include:

- The **WIA Performance Report**, which tracks information for the 17 federally mandated performance measures as well as more detailed information that compares outcomes for special populations (like veterans or those receiving public assistance) with the entire population and for clients receiving different levels of WIA services (core, intensive, or training). The Department submits this report to the USDOL quarterly.

- The **WIA Characteristics Report**, which lists demographic, economic, and educational status information for all WIA clients. The report also indicates what services each demographic group receives and the number of clients who have left the program and obtained employment. The Department does not submit this report to the USDOL.

These reports contain information that could be valuable in managing the State's workforce programs and identifying areas for further evaluation. Federal law requires that states conduct evaluations of their workforce center programs to assess their effectiveness and to promote continuous improvement in the system. Specifically, WIA Section 136(e) requires states to use part of their WIA funds to conduct ongoing evaluation studies:

> ... to promote, establish, implement, and utilize methods for continuously improving [workforce center] activities in order to achieve high-level performance within, and high-level outcomes from, the statewide workforce investment system.

We found the Department does not use the reports for these purposes, although we noted information in the reports that we believe deserves further investigation to determine if it reflects less than satisfactory performance at the workforce regions. For example:

- **Relationship of training to employment obtained.** According to WIA Performance Reports, many WIA participants do not obtain employment that is related to the training programs they complete. For State Fiscal Year 2002, more than 40 percent of adults and 60 percent of dislocated workers did not enter employment related to their training. These statistics do not include basic, prevocational classes like the GED, ESL, or many computer skills classes that could have application for a wide variety of jobs. The data on training used in these figures focus on those clients who have chosen specific training programs that should be linked directly to employment opportunities as required by WIA. The State reported these outcomes for only about 30 percent of Adult and Dislocated Worker clients who exited the program in State Fiscal Year 2002 because the Department is unable to track these data systematically and the regions do not routinely collect this type of employment information when conducting follow-up interviews with exited clients. This information could be the basis for evaluating the overall effectiveness of placing WIA participants into training to determine if the same employment outcomes could be achieved without the added expense of training services as well as to assess the appropriateness of the selected training programs.

- **Effectiveness of training.** According to WIA Performance Reports from State Fiscal Years 2001 and 2002, individuals who receive training do not always experience more successful outcomes than those who receive only core and intensive services. Specifically, although many Adult program enrollees who received training were more likely to retain employment after six months (81 percent vs. 75 percent) and have higher earnings after six months ($3,995 vs. $2,281 total increase in wages), they were no more likely than those who received only core and intensive services to obtain jobs initially (72 percent vs. 74 percent). Similarly, dislocated workers who received training were more likely to replace their previous wages at a higher rate after six months (92 percent vs. 88 percent) than workers who received no training, but were less likely to enter employment (74 percent vs. 81 percent) and about equally likely to retain their jobs after six months (89 percent vs. 90 percent). Like the previous example, this information could be used as a basis for evaluating the effectiveness of the assistance offered to clients.

- **Training opportunities.** According to the WIA Characteristics reports for State Fiscal Years 2001, 2002, and 2003, WIA clients without a high school education (or GED) appear to have worse employment outcomes than those with a high school diploma or better and are also less likely to receive training services. For instance, since WIA's inception, 27 percent of WIA clients without a high school education have received training services and 63 percent of them had jobs when they left the WIA program. For the same period, 56 percent of those with at least a high school diploma received training services and 72 percent had jobs when they exited WIA. It would be valuable for the Department to determine if there is a relationship between training opportunities for the less well-educated and their employment outcomes.

- **Per-client expenditures.** Based on our analysis of data from the WIA Performance Reports and WIA funding reports provided by the Department, we determined that the amount of money spent per WIA client varies considerably from one region to another. For instance, WIA spending per client in State Fiscal Year 2002 ranged from about $1,100 per client in Arapahoe/Douglas to about $3,000 in Denver. However, the effectiveness of the programs does not appear to correlate to spending. Arapahoe/Douglas did better than Denver in 14 of 17 WIA performance categories during State Fiscal Year 2002 despite Denver's spending more than 2½ times as much per client. The Department should review these regions to determine how Arapahoe/Douglas was able to spend significantly less per WIA client than Denver, yet outperform Denver on most performance measures. Such a review might identify unique problems facing Denver that could be addressed through assistance or guidance from the Department as well as best practices that could be disseminated to other workforce regions.

Department and workforce center staff told us that they focus on WIA's 17 performance measures when assessing how successful their outcomes are for WIA clients. We believe the Department should look beyond these 17 indicators at other available data in order to fully assess the program's effectiveness and identify areas for improvement. As our examples illustrate, the Department's own statistics appear to suggest that training services do not always lead to significantly better outcomes for WIA clients. However, without an in-depth analysis of these statistics and the reasons behind them, the Department cannot use this information to develop and set policy that could improve outcomes for the State's job seekers.

The State Workforce Development Council has taken steps to evaluate the workforce regions in terms of some of the areas described above. For example, in a June 2002 meeting, the State Council raised questions about differences in the cost per client and service outcomes for WIA clients around the State and about using data for evaluation purposes. Additionally, in May 2003 the Council approved the hiring of a firm to evaluate the regions and develop baseline data for improvement as part of a new Continuous Improvement Management System. We believe the data currently collected by the Department provide a valuable starting point for such evaluation and improvement efforts.

The Department has also begun some studies of elements of the workforce system, including a Workforce Health Care Initiatives study to evaluate workforce center efforts in the health care industry and an ongoing Customer Satisfaction study being conducted by the Department's Labor Market Information unit, including both employers and job seekers. While these studies may lead to improvements in the workforce system, they are not related to any of the statistical reports the Department has available. We believe the

Department should review the data it maintains in its reporting system to identify areas for further study. Currently the Department is missing a cost-effective opportunity to identify potential issues like those noted above and study them further to improve the workforce system.

Recommendation No. 7:

The Department of Labor and Employment should regularly review data from its routine reports and use the data as a basis for evaluation studies to promote continuous improvement in Colorado's workforce system.

Department of Labor and Employment Response:

Agree. The Department anticipates implementing this recommendation on a quarterly basis beginning with the quarter ending September 30, 2003.

Regional Performance Measures

Once it has negotiated its statewide performance standards under WIA, the State negotiates local standards for the 17 indicators with each workforce region. Similar to the State, the regions are subject to rewards and sanctions based on their performance. We noted one problem with the way the State has managed the performance measurement system at the local level. Specifically, we found that the Department renegotiated the local standards for State Fiscal Year 2002 after the year had ended and the regions' actual performance levels were already known. According to the Department, it revised these standards to enable more regions to qualify for incentive grants issued by the Office of Workforce Development (OWD). In all, seven of Colorado's nine workforce regions had at least one performance standard reduced, as shown in the following table, so that their actual performance on all measures qualified as having met the standard and they became eligible for incentive monies. To make up for the reductions, eight regions raised standards on eight different measures. According to the Department, the collaborative effort to modify the performance standards was an excellent way to promote cooperation among the regions.

Regions With Lowered Performance Standards for State Fiscal Year 2002				
Region	**Performance Measure**	**Original Standard**	**Actual Result s**	**Revised Standard**
Arapahoe/Douglas	Older Youth Retention Rate	69.8%	60.0%	61.5%
Boulder	Adult Entered Employment Rate	63.2%	62.5%	59.0%
Denver	Adult Earnings Change (over 6 mos.) Adult Credential Rate Older Youth Entered Employ. Rate Older Youth Credential Rate Young. Youth Diploma Attain. Rate	$2,838 51.0% 55.7% 41.0% 51.0%	$2,303 34.7% 60.0% 28.9% 33.3%	$2,830 33.0% 50.5% 35.0% 41.0%
Larimer	Older Youth Entered Employ. Rate	55.7%	42.9%	42.0%
Pikes Peak	Older Youth Retention Rate	69.8%	66.7%	55.0%
Tri-County	Disloc. Worker Wage Replace. Rate	89.8%	84.6%	89.3%
Weld	Disloc. Worker Wage Replace. Rate	89.8%	88.2%	87.9%
Source: Office of the State Auditor analysis of data from the Department of Labor and Employment.				

Federal law does not specifically prohibit a modification of regional performance standards after the fact. However, the Department's renegotiation of these local standards after the regions' performance levels were already known results in a number of problems, including:

- **Diminishing the usefulness of the standards as assessment tools.** The renegotiation process suggests that the performance standards are not true indicators of expected performance. Rather than comparing actual outcomes with the standards to assess whether the regions needed to improve their operations, the Department chose to change the goals after the fact. Although the worsening economy explains some of the lower than expected performance, some regions achieved their standards despite the greater challenge this offered. It is unclear how the Department determined that the relatively low performance of some regions was due primarily to external factors and not to weaknesses in those regions' programs.

- **Rewarding regions for poor performance and treating some regions inequitably.** Revising the standards allowed some regions to qualify for incentive grants despite poor performance, which appears to negate the purpose of the grants. However, some regions' measures were not reduced to a low enough level to qualify them for incentives. The Department could have changed each region's performance levels to allow them all to qualify for incentive grants without affecting the State's overall performance. Giving performance incentive grants to some regions that did not meet their original standards, while denying others, also has the potential to serve as a negative incentive for regions that perform up to or above the standards.

- **Preventing the Department from using the local standards as a means for improving performance.** WIA stipulates certain actions to be taken when local areas do not meet their performance standards, ranging from technical assistance after the first year standards are not met to prohibiting certain organizations from providing WIA services after the second consecutive year that the standards are missed. By changing some standards to reflect actual performance, the Department has delayed actions that may be needed to improve the operations of the regions.

The federal government is currently in the process of reauthorizing WIA, which may result in fewer performance categories, among other changes. Based on modifications to the performance measurement system, the USDOL will negotiate with the states to establish new statewide standards for State Fiscal Years 2004 and 2005, which will be the basis of new local standards. Although the Department has indicated that this renegotiation process was a one-time occurrence that will not be repeated, we believe the Department should develop formal guidelines that specify under what circumstances local regions may request revisions to negotiated performance standards for future years but that prohibit changing standards after the fact.

Recommendation No. 8:

The Department of Labor and Employment should strengthen its mechanisms for measuring the performance of Colorado's workforce system by renegotiating local performance standards only under circumstances specified in criteria developed by the Department.

Department of Labor and Employment Response:

Agree. Implementation: Ongoing. The Department of Labor and Employment must note that renegotiations of annual performance standards with the U.S. Department of Labor may be pursued as the economic conditions of the State fluctuate. Should the USDOL agree to change negotiated State performance levels, it is incumbent on the Department of Labor and Employment to offer the same opportunity to its local Workforce Regions. Additionally, each Colorado Workforce Region may request a renegotiation of their established local performance standards from the Department of Labor and Employment based upon changes in local economic conditions. The Department's decision to renegotiate with a specific Workforce Region will be dependent upon the substantiated rationale that is presented.

Employment and Training Funding

Chapter 3

The Department's Office of Workforce Development Programs is responsible for distributing a variety of federal and state funds to the workforce regions each year. Since its inception in July 2000, the federal Workforce Investment Act (WIA) has provided Colorado with an average of $31 million annually in combined WIA and Wagner-Peyser funding. At the state level, allocations from the U.S. Department of Labor (USDOL) are divided into a number of different categories as summarized in the following table. For administration and statewide reserves, each state determines the amount to use, up to the maximum percentages noted in the table.

Distribution of WIA and Wagner-Peyser Funds
State Fiscal Years 2001 Through 2003

	SFY01	SFY02	SFY03
WIA: Total Funds Available	**$21,927,432**	**$20,505,484**	**$19,816,572**
Dept. of Labor & Employment and Office of Workforce Development Admin. (up to 5%)	$1,096,372	$1,025,274	$990,829
Statewide Reserves[1] (averages 20%)	$4,434,586	$3,923,267	$3,826,358
Allocated to the Regions	$16,396,474	$15,556,943	$14,999,385
Adult Programs (85%)	*$5,447,964*	*$4,903,167*	*$4,412,851*
Youth Programs (85%)	*$5,568,088*	*$6,159,251*	*$6,159,251*
Dislocated Worker Programs (60%)	*$5,380,423*	*$4,494,525*	*$4,427,283*
Wagner-Peyser: Total Funds Available	**$10,421,973**	**$10,329,710**	**$10,301,856**
Statewide Reserves[2] (10%)	$1,042,197	$1,032,971	$1,030,186
Allocated to the Regions (90%)	$9,379,776	$9,296,739	$9,271,670
WIA + Wagner-Peyser Statewide Reserves	$5,476,783	$4,956,238	$4,856,544
WIA + Wagner-Peyser Allocated to Regions	$25,776,250	$24,853,682	$24,271,055

Source: Office of the State Auditor analysis of data provided by the Department of Labor and Employment.

[1] Federal regulations allow the State to reserve up to 10% of the WIA Adult and Youth grants and up to 35% of the WIA Dislocated Worker grant for statewide activities such as maintaining a list of eligible training providers and offering grants to the regions for targeted projects.

[2] Federal regulations allow the State to reserve up to 10% of its Wagner-Peyser allotment for statewide activities such as providing services to groups with special needs and to provide performance incentives.

In addition to WIA and Wagner-Peyser, the Department has received funding from the following sources in recent years:

- The State Employment Support Fund provides about $5 million annually which is generally used along with Wagner-Peyser monies to provide basic Employment Services programs such as job search assistance. In 2003 the Department received a supplemental appropriation replacing Employment Support Fund monies with federal Reed Act funds, which can be used for essentially the same purposes.

- The state Displaced Homemakers Fund provides about $100,000 annually for programs to assist displaced homemakers to reenter the workforce.

- A federal National Emergency Grant (NEG) provides services to individuals laid off after the terrorist attacks of September 11, 2001. Colorado received a total award of $7.5 million for the period April 1, 2002, through March 31, 2004.

- A federal Unemployment Insurance Reemployment Grant provides case management services to certain Unemployment Insurance claimants. Colorado received funding in both State Fiscal Years 2002 and 2003 for a combined total of about $800,000.

The Department provides base allocations of WIA, Wagner-Peyser, and Employment Support Fund monies to the regions each year using a series of formulas. The formulas assign different weights to factors such as rates of unemployment, number of persons in poverty, number of farms in crisis, mass layoffs, unemployment claimants, and number of individuals requesting services. We reviewed the calculations for the base allocations and found that they appeared reasonable.

Both the Department and the Governor's Office of Workforce Development (OWD) offer various grants to the workforce regions using the funds reserved from the State's WIA and Wagner-Peyser allotments as well as from the Displaced Homemakers Fund, the NEG, and the Reemployment Grant, described above. Specifically, the OWD administers the amounts reserved from the WIA funding streams. These funds are used, in large part, to offer grants to the regions for various workforce projects. The Department administers the remaining discretionary funds described above, some of which are offered to the regions through a competitive process and others of which are awarded through a more needs-driven approach, using either a pre-set formula or an evaluation of a particular region's request for assistance. The grants offered by the Department generally fall into established categories, as shown in the following table.

Grants Administered by the Department of Labor and Employment's Office of Workforce Development Programs			
Grant Program	**Purpose**	**Allocation Method**	**Amount for SFY 2003**
WIA Dislocated Worker Discretionary Funds			
Enhanced Disloc. Worker	To address local needs for dislocated worker services.	Same formula (and at same time - beginning of FY) as base Dislocated Worker funds.	$925,000
Layoff Reserve	To supplement allocations for dislocated workers. Last 2 years, Department has targeted to Front Range regions.	Formula - awarded as additional enhanced dislocated worker grants.	$300,000
Local Rapid Response[1]	To assist regions in responding to local layoffs.	Same formula as for Layoff Reserve - awarded as enhanced dislocated worker grants.	$0 as of 12/02
Older Worker	To provide dislocated worker services to older workers.	Competitive	$240,000
Wagner-Peyser Discretionary Funds			
Summer Job Hunt	To help Colorado youth transition from school to work by matching skills and interests with job opportunities.	Formula	$500,000
Special Needs	To provide services to targeted groups such as job seekers with multiple barriers.	Competitive	$250,000
Employer Services	To enhance employer services in metro Denver workforce regions and encourage coordination of programs.	Competitive among the Adams, Boulder, Denver, Arapahoe/Douglas, and Tri-County regions.	$51,000
Special Purpose Grants			
Displaced Homemaker	To assist displaced homemakers to enter or reenter the workforce and become economically self-sufficient.	Competitive	$72,400
Unemploy. Insur. Re-Employment[2]	To provide case management services to a subset of Unemployment Insurance claimants.	Competitive	$360,000
Nat'l. Emergency Grant	To provide services to individuals laid off after September 11, 2001.	Formula	$3,460,000

Source: Office of the State Auditor Analysis of data provided by the Department of Labor and Employment.

1 The Department funds a State Rapid Response unit to assist workers who lose their jobs through mass layoffs. The Department reserves $380,000 to $450,000 for this unit annually. Once the Department can estimate the demands on the unit, it can distribute some funding to the regions.

2 In FY 2002, the USDOL expanded Wagner-Peyser funding for reemployment services. Colorado has received a portion of these funds in FY 2002 and 2003.

In reviewing the administration of employment and training funds by both the Department and the Office of Workforce Development, we noted a number of areas for improvement. The first part of the chapter discusses some inefficiencies in the Department of Labor and Employment's processes for allocating funds to the regions. The second part of the chapter addresses weaknesses in the Office of Workforce Development's distributions and oversight of WIA discretionary funds.

Allocating Discretionary Funds

As discussed above, in addition to distributing the annual base WIA and Wagner-Peyser allocations to the workforce regions, the Department also distributes a number of competitive and needs-driven grants to the regions. We reviewed the Department's processes for allocating grants funded by WIA, Wagner-Peyser, the National Emergency Grant, and the Displaced Homemakers program. The Department offers grant opportunities to the regions from these sources in a number of ways, with seven separate grants being offered in State Fiscal Year 2003.

In reviewing the process used by the Department to award grants to regions, we found some areas for improvement. Overall, workforce center staff reported frustration with the current grant process because the Department has made too many grants available that are offered sporadically and are small in amount. Each grant requires a separate proposal, has a specific grant period, and must be tracked independently from every other funding source. One workforce center provided us a listing that showed 18 different funding sources that were being tracked for State Fiscal Year 2002 to provide a variety of employment and training services to clients. Staff at some of the regions said they question the value of using staff resources to apply for and track such small grants.

We understand that the Department must work within federal requirements which, in some cases, dictate both the time frame and use of discretionary funds. However, the Department also has the ability to streamline its grant processes by:

- **Combining grants.** Currently the Department divides its WIA Dislocated Worker discretionary funds into three pots—Rapid Response, Older Worker, and Enhanced Dislocated Worker. The regions are awarded funds within these three categories and must account for each category separately. One specific improvement would be to allocate Enhanced Dislocated Worker and base Dislocated Worker funds together. Since the inception of WIA, the Department has allocated Enhanced Dislocated Worker grants to the regions at the same time and using the same formula as is used for each region's base WIA Dislocated Worker grant. If the Department included the enhanced funds (which totaled about $925,000 in State Fiscal Year 2003) with the base WIA Dislocated

Worker funds, neither the regions nor the Department would have to track the funds separately. The Department also divides its Wagner-Peyser discretionary funds into three types of grants referred to as Special Needs, Employer Services, and Summer Job Hunt. The Department could consider offering fewer grant categories that cover a broader range of projects and funding those grants with the appropriate WIA or Wagner-Peyser funds.

- **Coordinating grant announcements.** Currently each grant is announced shortly before the grant period begins or, in some cases, after a grant period has begun. By developing one or two announcements each year that inform the regions of all known grant opportunities, the Department would give the regions more time to plan for potential projects. In this way, the Department could offer the regions funding for multiple project areas once or twice a year. The regions would still have to track the grants separately, but aligning the grant announcements and, therefore, the periods would simplify planning and tracking. The Office of Workforce Development (OWD) has already adopted this approach in distributing its multiple grants to the workforce regions, and it would be especially efficient for the regions if the Department coordinated grant notices with those of the OWD.

- **Internally consolidating grants management.** Currently five different individuals at the Department manage seven grants, five of which are competitive and must go through a proposal evaluation process managed by committees of Department staff. The Department could consolidate grants management among fewer staff, which might reduce the costs of administering the grants. Although we did not generally note excessive costs for grants administration, we did find that the Department's one state-funded grant program, the Displaced Homemaker program, had administrative costs of about 20 percent in State Fiscal Year 2003. This program provides only about $100,000 per year in funding and for the past two years these monies have been awarded to only three of the regions. Even without consolidating grant administrative duties, the Department should reduce this cost. The Department has indicated that these high administrative costs were charged in error and have been corrected.

Recommendation No. 9:

The Department of Labor and Employment should streamline and simplify its discretionary grant process by:

a. Combining funds into fewer, larger grants whenever possible.

b. Combining grant announcements into one or two per year that include all available funds and coordinating grant periods so that the expenditure deadlines are more consistent across grants.

c. Evaluating opportunities for consolidating grants administration among fewer staff within the Department and ensuring that administrative costs for the Displaced Homemaker program are reduced.

Department of Labor and Employment Response:

a. Agree. The Department anticipates implementing this recommendation in January 2004.

b. Agree. The Department anticipates implementing this recommendation in January 2004.

c. Agree. The Department anticipates implementing this recommendation by December 31, 2003.

The Department has already begun addressing this recommendation through a workgroup of regional directors.

Timely Grant Announcements

We reviewed the Department's process for offering WIA and Wagner-Peyser discretionary fund grants to the regions and found that for State Fiscal Years 2001, 2002, and 2003 the Department sometimes gave regions very little notice when a grant was made available. In State Fiscal Year 2003, the average time between the date of notice and the proposal deadline for discretionary grants was just under 13 working days. For one State Fiscal Year 2003 grant, the Department gave the regions only six days to apply, and for another grant the Department allowed only 10 days, in both State Fiscal Years 2002 and 2003, for regions to respond with proposals. Furthermore, in some cases the Department does not announce a grant until the grant period has already begun. For example:

- The State Fiscal Year 2002 and 2003 Displaced Homemaker grants were announced in September and November, respectively, more than two to four months after the fiscal year began. Since the Displaced Homemaker grants are funded solely with state monies, regions had only 10 months in State Fiscal Year 2002 and 8 months in State Fiscal Year 2003 to spend their grant funds.

- The State Fiscal Year 2002 and 2003 Wagner-Peyser Special Needs grants were announced in September and August, respectively, and State Fiscal Year 2003 Wagner-Peyser Older Worker grants were announced in late September 2003. As a result, the regions had only about eight to nine months to spend these funds.

- The State Fiscal Year 2002 Reemployment Services grants were announced in September 2001. The regions received their funds in October and had less than nine months to spend them because the funds expired on June 30, 2002.

The Department is generally informed of federal funds availability no later than May of each year and both state and federal funds are made available to the Department each July 1. Therefore, for all these funding sources, the announcements to the regions that grant opportunities are available did not occur until one to four months after the funds were available to the Department.

Staff at the regions we visited told us that it takes a significant amount of time to develop grant projects and prepare proposals, and they occasionally do not apply because of the short time lines. Furthermore, by delaying the announcement and subsequent distribution of grant funds, the Department reduces the period of time the regions have to operate their grant projects, which could reduce their effectiveness, and increases the risk that unexpended funds will revert to the federal government.

Recommendation No. 10:

The Department of Labor and Employment should announce grant opportunities to the regions as soon as the availability of funds is known to the Department.

Department of Labor and Employment Response:

Agree. The Department anticipates implementing this recommendation in January 2004.

Timely Use of WIA Discretionary Funds

The State Workforce Council is responsible for managing 10 percent of Colorado's annual WIA allotment, which has averaged about $2.1 million each year in State Fiscal Years 2001, 2002, and 2003. Once allotted to the State, WIA funds have a life of three years; funds not spent within three years revert to the Federal government. We reviewed the distributions and expenditures of these funds by the State Workforce Development Council and found problems with timely use of some of the WIA discretionary money.

First, for the past three state fiscal years the Council has rolled forward significant sums of money to the subsequent year, although the amounts rolled forward have declined each year. Specific amounts rolled forward are as follows:

- About $1.14 million from State Fiscal Year 2001 to 2002.
- About $850,000 from State Fiscal Year 2002 to 2003.
- About $702,000 from State Fiscal Year 2003 to 2004.

This means that, on average, the Council rolled into the next year over 40 percent of the total annual budget of WIA discretionary funds during these years, delaying the ultimate expenditure of the funds.

Second, halfway through State Fiscal Year 2003, the Council had still not distributed or spent a substantial sum of funds from State Fiscal Years 2001 and 2002. Specifically, as of December 2002, the Workforce Council had not distributed over $275,000 in State Fiscal Year 2001 funds, which must be used by June 30, 2003. As of February 28, 2003, the undistributed balance of State Fiscal Year 2001 WIA discretionary funds had been reduced to about $57,000. However, delaying the distribution of some funds until about four months before the end of the program period increases the risk that the funds will not actually be spent before they expire.

Finally, the Council used State Fiscal Year 2002 funds while State Fiscal Year 2001 funds remained unspent and continued to use State Fiscal Year 2003 funds while monies from State Fiscal Years 2001 and 2002 had not yet been distributed to the regions.

One particular area of concern related to both timely distribution of funds and the use of older funds before newer funds is the method used by the Council to award performance incentive grants for State Fiscal Year 2001 performance by the regions. The Council did not actually provide incentive grants to the regions for State Fiscal Year 2001 performance until the end of October 2002, almost 16 months after State Fiscal Year 2001 had ended and 10 months after statewide performance data for the year were reported to the USDOL. The Office used State Fiscal Year 2002 funds for these incentive grants. Using these newer funds to provide the incentive grants gives the regions about 20 months before the funds expired, but also increases the potential that older funds remain unused while newer monies are spent. According to the OWD, the Council is currently working on a process to fund the performance incentive grants that will balance these issues.

The Office of Workforce Development should award incentive grants as soon as performance data are compiled, no later than the December following the end of the fiscal year for federal reporting purposes. Specifically, for State Fiscal Year 2003, the Office should plan to award incentive monies by January 2004. This would allow the Office to match the funds with the year of performance. In other words, the Office could use State Fiscal Year 2003 funds to provide incentives for State Fiscal Year 2003 performance, giving the regions 18 months (January 2004 through June 2005) to use the funds. As of June 2003, the Council had not awarded incentives for State Fiscal Year 2002 performance.

Although the State has 90 days after the end of the three-year program period to spend WIA funds that were obligated as of the end of the program period, delays in distribution and spending increase the risk that funds will not be used and will revert to the federal government. We reviewed data provided by the Department that tracks how regions are spending their funds. We found that in addition to the distribution issues described above, some regions have not expended all of their State Fiscal Year 2001 WIA discretionary funds, which will expire at the end of June 2003. As of February 28, 2003, the regions had not expended over $400,000 in State Fiscal Year 2001 WIA discretionary funds. This amount represents over 40 percent of the total State Fiscal Year 2001 discretionary funds awarded to the regions. Delays in spending by the regions may be due, in part, to the slow distribution of funds. The Department informs the OWD of lags in spending, but has not established a policy to ensure that unexpended funds are identified and reallocated by the Department within a specified time frame before the end of the program period to ensure monies are fully used to benefit the workforce system and are not returned to the federal government.

Working with the State Council, the Office of Workforce Development has begun to improve the distribution of discretionary funds by establishing a process to announce all grants at the beginning of the Calendar Year and having an April 30 deadline for all discretionary grant proposals. In addition, the Council plans to use older funds to provide performance incentive grants to the regions for current year performance to help ensure these older funds are used more quickly. However, both the Office of Workforce Development and the Department need to actively monitor the funds and take aggressive steps to ensure that funds are distributed in a timely way and that older funds are used before newer funds.

Recommendation No. 11:

The Office of Workforce Development should implement procedures to expedite the distribution and spending of WIA discretionary funds and to use funds from earlier years before funds from more recent years.

Office of Workforce Development Response:

Agree. Additional steps to monitor distribution will be taken by September 2003. The Office of Workforce Development agrees that additional steps can be taken to reduce the risk of the department being forced to return funds to the USDOL. However, we maintain that no money has been returned to the federal government from the discretionary fund.

The Colorado Workforce Development Council allocates funds in the year that they are received annually and minutes from Council meetings and the OWD letters to the Governor corroborate that fact

The issue of first use of old money is valid to a point. The funds in each category of spending should be dispensed on a first-in first-out basis. The OWD suggests that it is important to consider the fact that the discretionary funds are allocated to categories. It would not be prudent to hold off allocating or spending money in a category that has been fully distributed in the previous years because of unspent funds in a separate category. The act of withholding either allocation or distribution of funds in that case would only compound the issue raised in the report.

The Department and the OWD instituted a regular monitoring and review procedure, to check the status of discretionary funding, last year and will continue to monitor the first use of money in future years.

Recommendation No. 12:

The Department of Labor and Employment should improve its oversight of WIA discretionary funds by:

a. Implementing procedures to inform both the Office of Workforce Development and the regions of all funds that have not been spent within a specified time frame to be determined by the Department and the OWD, such as six months before the end of each fiscal year.

b. Instituting a policy to reallocate funds that have not been used within the specified time period.

Department of Labor and Employment Response:

a. Agree. The Department anticipates implementation of this recommendation by December 31, 2003.

b. Agree. The Department anticipates implementation of this recommendation by December 31, 2003.

The Department intends to develop a policy for reallocating funds that have not been used within a specified period of time. The Department already conducts regular reviews of regional and OWD spending patterns to determine if expenditures are in line with local plans and if 100% of each grant will be expended by the end of the period of performance.

Oversight of WIA Discretionary Funds

Each year, the Office of Workforce Development sends the State Council and the Governor's Office a letter recommending a budget for the current year's WIA 10 percent discretionary funds (about $2 million for State Fiscal Year 2003). The budget generally divides the funds into eight or nine large spending categories, such as Statewide WIA Training, Performance Incentive and Capacity Building, and Technical Assistance for Local Regions. For State Fiscal Year 2003, over 20 percent of the budget was placed in the "Other Allowable (Optional) Activities" category. Funds in this category are used for a variety of purposes, such as disseminating a list of eligible training providers. We reviewed both budgeted and actual expenditures of the WIA 10 percent discretionary funds as well as the controls in place at the Office of Workforce Development and identified a number of concerns with the management of these funds.

First, we found that OWD staff do not always obtain approval from the Governor's Office and the State Council to use large amounts of funds for projects not included in the original budgets. As noted above, the Office rolled forward an average of nearly $1 million each year between State Fiscal Years 2001 and 2004. When funds are rolled forward, the Office may not use the funds as budgeted in their first year and we could find no evidence in Council meeting minutes or documentation from the OWD that changes in spending for the amounts rolled forward were approved by the Council.

One example of funds not being used as approved is an E-learning initiative that will offer clients and staff in the regional offices online access to employment and training materials and services. This project, for which the OWD has currently set aside about $262,000, was not originally budgeted according to any of the budget letters provided to the State Council and, therefore, was not approved through that process. OWD staff confirmed that such changes are not typically brought to the Council for approval. In addition, the OWD does not provide a year-end accounting to the Governor's Office and State Council that shows budgeted to actual spending by category. Such an accounting would not only keep these decision makers informed about how the funds are being used, it would provide valuable feedback for future budgeting and priority setting.

Second, the OWD does not always keep the Department well-informed of amounts expended against the WIA discretionary funds. Although the OWD manages the funds, the Department actually makes payments for expenditures based on requests submitted by the OWD. However, the requests to authorize payments have been informal at times, frequently consisting of emails including only minimal information about the project being funded or memos that contain very little detail about project expenses and items being purchased. In a December 2002 financial review, the U. S. Department of Labor's Employment and Training Administration found inadequate coordination between the Department and the Office of Workforce Development, and weaknesses in the internal controls over funds administered by the Office of Workforce Development.

The OWD director and staff manage the discretionary funds on a day-to-day basis. However, the State Council is responsible for providing overall direction and approval for how the funds are used, consistent with the statewide workforce investment priorities it sets. In addition, the Department of Labor and Employment is responsible to the federal government for ensuring that the funds are spent in accordance with applicable laws and regulations. The procedures that have been used by the OWD to submit expenditures have not permitted the Department to ensure compliance with federal requirements, including cost principles and allowability standards.

Currently both the Department of Labor and Employment and the Department of Local Affairs (which houses the Office of Workforce Development) are working to improve controls over these funds. We encourage continuation of these efforts and suggest that the Department of Labor and Employment, as the state agency responsible to the federal government for WIA funds, ensure that all future OWD expenditures are in compliance with federal requirements. One way the Department can accomplish this is to audit the OWD as it would any other contractor. According to the Department, an audit is planned during the current fiscal year.

Recommendation No. 13:

The Office of Workforce Development should improve its communication regarding discretionary fund budgets by:

a. Including greater detail on planned spending in the budgets approved by the Governor's Office and State Council.

b. Requesting approval from the Governor's Office and State Council for any significant changes in planned spending during the course of the year.

c. Reporting on deviations from the budget and year-end balances to the Governor's Office, the State Council, and the Department of Labor and Employment.

Office of Workforce Development Response:

a. Agree. The approval by the Governor and the Council is to authorize the proposed spending in each of the categories. The description of the categories will be expanded effective with the 2004 recommendation to the Governor in June 2004.

b. Disagree. Discretionary funds use is adequately tracked by OWD, Department of Labor and Employment Accounting, and the Workforce Development Programs office. The OWD has informed the Council of all uses of funds that were utilized to provide statewide projects that were not individually identified in the recommendation to the Governor. Many projects, such as the Individual Training Accounts project for workers dislocated as a result of September 11 and the subsequent downturn of business activity in the state, or the E- learning portal, were not identified at the time of the planned distribution letter to the Governor.

   It is the opinion of the OWD that they are authorized under the Other Statewide Activities category. When a project such as the E-learning portal will benefit the system and serve citizens in more than one category, then funds from a variety of categories are tapped to support the project. The OWD will ask the Colorado Workforce Development Council for formal approval of a resolution or a motion to approve any future statewide projects through a formal action of the council and will record that authority in the meeting minutes. The Council has the authority to re-categorize up to 20 percent of the total Discretionary Fund amount each year. The Governor will be formally notified of any actions taken to exercise that power.

c. Agree. Implementation: August 1, 2003. The OWD agrees that there is a definite need to prepare a formal reconciliation for the Governor and the Council each year with accompanying explanations. The OWD will begin that practice at the end of this program year (2002). The report will be submitted to the Council for approval and transmission to the Governor. This suggestion will improve the governance and accountability of the OWD to both the Council and the Governor.

Recommendation No. 14:

The Department of Labor and Employment should improve its oversight of the WIA discretionary funds administered by the Office of Workforce Development to ensure they are spent appropriately by conducting annual audits of the Office and implementing other measures as needed to provide adequate fund oversight.

Department of Labor and Employment Response:

Agree. The Department has already agreed to this process and anticipates implementation of the recommendation by December 31, 2003.

Appendix A

Workforce Investment Act (WIA) Performance Measures

The following list explains WIA's 17 performance measures. All but two of the measures apply to specific WIA funding streams (Adult, Dislocated Worker, or Youth). The final two measures document customer satisfaction across all funding streams. The information in parentheses explains the calculations made to report on these measures.

<u>Adult Program</u>

1. **Entered Employment Rate** - Entry into unsubsidized employment (number of adults who have entered employment by the end of the 1st quarter after exit divided by number of adults who exit during the quarter).
2. **6-Month Retention in Employment** - Retention in unsubsidized employment six months after entry into the employment (number of adults who are employed in the 3rd quarter after exit divided by the number of adults who exit during the quarter).
3. **Average Earnings Change in 6 Months** - Change in earnings received in unsubsidized employment six months after entry into the employment (earnings in 2nd and 3rd quarters after exit from program minus Earnings in 2nd and 3rd quarters prior to enrollment divided by number of adults who exit during the quarter).
4. **Entered Employment & Credential Rate** - Attainment of a recognized credential relating to achievement of educational skills, which may include attainment of a secondary school diploma or its recognized equivalent, or occupational skills, by participants who enter unsubsidized employment (number of adults who were employed in the 1st quarter after exit and received a credential by the end of the 3rd quarter after exit divided by the number of adults who exited services during the quarter).

<u>Dislocated Worker Program</u>

5. **Entered Employment Rate** - Entry into unsubsidized employment (number of dislocated workers who have entered employment by the end of the 1st quarter after exit divided by number of dislocated workers who exit during the quarter).
6. **6-Month Retention in Employment** - Retention in unsubsidized employment six months after entry into the employment (number of dislocated workers who are employed in the 3rd quarter after exit divided by the number of dislocated workers who exit during the quarter).
7. **Earnings Replacement Rate in 6 Months** - Change in earnings received in unsubsidized employment after entry into the employment relative to earnings of job of dislocation (earnings in 2nd and 3rd quarters after exit divided by earnings in 2nd and 3rd quarters prior to enrollment).

8. **Entered Employment & Credential Rate** - Attainment of a recognized credential relating to achievement of educational skills, which may include attainment of a secondary school diploma or its recognized equivalent, or occupational skills, by participants who enter unsubsidized employment (number of dislocated workers who were employed in the 1st quarter after exit and received a credential by the end of the 3rd quarter after exit divided by the number of dislocated workers who exited services during the quarter).

Youth Program

Older Youth (aged 19-21)

9. **Entered Employment Rate** - Entry into unsubsidized employment (number of older youth who have entered employment by the end of the 1st quarter after exit divided by number of older youth who exit during the quarter).
10. **6-Month Retention in Employment** - Retention in unsubsidized employment six months after entry into the employment (number of older youth who are employed in the 3rd quarter after exit divided by the number of older youth who exit during the quarter).
11. **Average Earnings Change in 6 Months** - Earnings received in unsubsidized employment six months after entry into the employment (earnings in 2nd and 3rd quarters after exit from program minus earnings in 2nd and 3rd quarters prior to enrollment divided by number of older youth who exit during the quarter).
12. **Entered Employment & Credential Rate** - Attainment of a recognized credential relating to achievement of educational skills, which may include attainment of a secondary school diploma or its recognized equivalent, or occupational skills, by participants who enter unsubsidized employment or who enter postsecondary education, advanced training, or unsubsidized employment (number of older youth who were in employment, post-secondary education, or advanced training in the 1st quarter after exit and received a credential by the end of the 3rd quarter after exit divided by the number of older youth who exit during the quarter).

Younger Youth (aged 14-18)

13. **Basic Skills Attainment Rate** - Attainment of basic skills and, as appropriate, work readiness or occupational skills (total number of attained basic skills, work readiness skills, and occupational skills divided by the total number of goals for basic, work readiness, and occupational skills).
14. **Diploma/Equivalent Attainment Rate** - Attainment of secondary school diplomas and their recognized equivalents (number of younger youth who attained a

secondary school diploma or equivalent by the end of the 1st quarter after exit divided by the number of younger youth who exit during the quarter [except those still in secondary school at exit]).

15. **Placement and Retention Rate** - Placement and retention in postsecondary education, advanced training, military service, employment, or qualified apprenticeships (number of younger youth found in either post-secondary education, advanced training, employment, military service, or qualified apprenticeships in the 3rd quarter after exit divided by the number of younger youth who exit during the quarter [except those still in secondary school at exit]).

<u>Across Funding Streams</u>

16. Customer satisfaction for participants (weighted average of participant ratings on each of the 3 questions regarding overall satisfaction reported on a 0-100 scale).
17. Customer satisfaction for employers (weighted average of employer ratings on each of the 3 questions regarding overall satisfaction reported on a 0-100 scale).

Source: US Department of Labor Training and Employment Guidance Letter (TEGL) No. 7-99.

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