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Department of Labor
Workforce Development Partnership Program

July 1, 1997 to May 31, 1999

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State Auditor

New Jersey State Legislature

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Enclosed is our report on the audit of the Department of Labor, Workforce Development Partnership Program for the period July 1, 1997 to May 31, 1999.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
August 10, 1999

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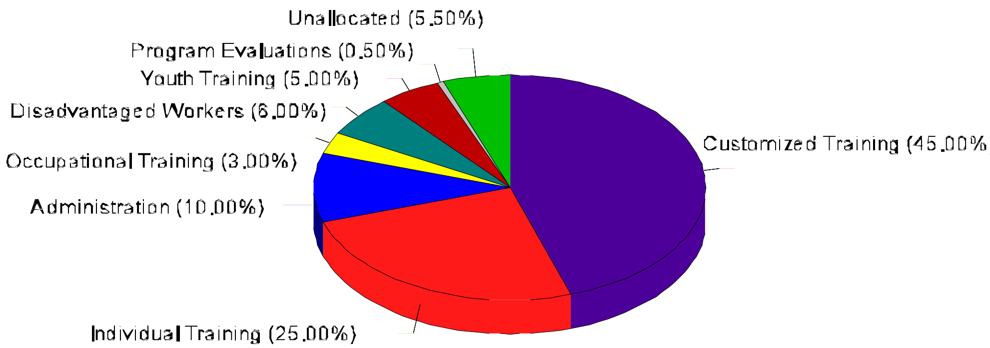
Department of Labor
Workforce Development Partnership Program

Introduction

The Workforce Development Partnership Program (WDPP) was created by statute in July 1992 to provide an adequate training resource for currently employed and recently displaced front line workers in conjunction with the state's business and labor communities. The WDPP is funded by a dedicated portion of the unemployment payroll tax. Annual revenues are allocated by percentages to each of the six program areas. The percentages established are minimums which must be allocated. Administration is allocated at a maximum of ten percent. Annual revenues have increased from $55 million in fiscal year 1994 to $69 million in fiscal year 1998.

STATUTORY REVENUE ALLOCATIONS



The WDPP is administered by the Department of Labor through their network of employment service offices, unemployment offices and one-stop centers. The department is expanding their one-stop center concept to comply with the federal 1998 Workforce Investment Act which mandates the coordination of federal and state training programs. In addition, the State Employment and Training Commission was created by statute as a public-private partnership to provide New Jersey with the workforce readiness policies necessary to ensure the state's success in an increasingly competitive economy. The commission is responsible for establishing evaluative criteria to measure the performance of the WDPP.

The two major components of the WDPP are Customized and Individual Training Grants.

The **Customized Training Grant** program was established to provide training grants to qualified employers within the state. Eligible applicants include an employer or a consortium of multiple companies and educational facilities seeking to create, upgrade or retain jobs in a labor demand occupation. In addition, grant funds are available to an employer seeking to upgrade or retain jobs in a company relocating to New Jersey. Employers must apply for grant funds to the Office of Customized Training using an established application process. Employers are required to match the resources provided and must also meet other regulations regarding the employees trained.

The **Individual Training Grant** program provides training grants of up to $4,000 for each qualified displaced or disadvantaged worker who undergoes unemployment counseling and establishes a satisfactory employability development plan. An additional $1,000 is available if remedial training is needed. Training contracts are established for each training grant with approved educational service providers. The service providers are responsible for reporting progress to the counselors who developed the training plan. Counselors may also approve grants for entrepreneurial training.

Scope

We have completed a performance audit of the Department of Labor, Workforce Development Partnership Program(WDPP) for the period July 1, 1997 through May 31, 1999. Our audit evaluated program functions. We included three general components; customized training, individual training grants (ITG) and administration. We also examined the role of the State Employment and Training Commission in evaluating the program.

Objectives

Our primary objectives were to determine whether program goals were established and achieved and whether the department has complied with significant laws and regulations applicable to the program.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller and policies of the agency. In addition, we reviewed information related to other job training programs. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and testing. The following significant provisions were reviewed: the eligibility of grant recipients, that performance standards were established, that revenue was properly allocated and administrative costs were within statutory limits, that there was adequate monitoring and evaluations of the programs, and grantee matching requirements were met. We also read the budget message, reviewed financial trends, and consultants' reports and interviewed agency personnel to obtain an understanding of the programs and management controls. We attempted to evaluate the program's performance.

A nonstatistical sampling approach was used. Our samples of transactions were designed to provide conclusions about the validity of transactions, as well as management controls and compliance attributes. Sample transactions were judgmentally selected. We conducted our audit work at the Department of Labor's central office and the following field offices: Newark, Trenton, New Brunswick, Perth Amboy, Vineland, Camden, Englewood and Westhampton.

Conclusions

An independent consultant report stated that 67 percent of the people surveyed, who received individual training grants, were employed full-time after receiving training. In addition, two years after losing their jobs, grant recipients were earning 82 percent of their pre-unemployment wages. Although the consultant measured program results, a determination if the results met expectations could not be made since quantifiable performance standards had not been established as required by statute.

We further noted that the program was in compliance with other significant laws and regulations except in the areas of program monitoring and revenue allocation. We found that program efforts were concentrated on placing people in training, but a need to increase the monitoring and evaluation of the results of the training was noted. We found that grant recipients met eligibility requirements; however, it was determined that the program could have been expanded to provide additional training grants. Program spending policies were implemented excluding otherwise eligible clients due to an apparent miscommunication of the funding available to the program. In addition, inconsistent policies and procedures applied by program personnel regarding client eligibility served to further limit grantee participation. Although not a primary objective of our review, we noted that WDPP funds were expended to provide training to New Jersey workers. Details of these findings and recommendations follow.

Department's Response

As you are aware, the Workforce Development Program is a key aspect of the overall strategy to train workers and to retain sought after businesses in this State. Because this is a relatively new program in State government, we acknowledge there is room for some administrative improvements as recommended in your audit. However, that cannot diminish the overall success of this program which was evaluated by the John J. Heldrich Center for Workforce Development at Rutgers. Some of those results were independently verified by your audit staff.

The Center's evaluation determined that individual grants showed grant recipients earning eighty-two percent of pre-unemployed wages while two-thirds of the companies surveyed felt their Customized Training grant had a significant positive impact on their company. Ninety-five percent of these companies would recommend other companies to participate, while eighty-six percent of participants who received individual training grants rated the program as good or excellent.

Additionally, there is satisfaction that the audit report concluded that WDPP funds were expended to provide training to New Jersey workers. However, while the report concludes that we were generally in compliance with applicable laws and regulations, we do not agree with your assertion that we are not in compliance with regard to program monitoring and revenue allocation. The rationale for our position is included in the detailed response attached to this letter.

Establishing Program Performance Standards and Objectives

Quantifiable performance standards should be established to measure the program's success.

N.J.S.A. 34:15c-8 requires the State Employment and Training Commission to establish quantifiable performance standards for each employment and training program. For the purposes of this review, we interpreted quantifiable performance standards to be bench marks or goals against which program results can be measured. Our review of the WDPP found that for the seven years the program has been in existence, no performance standards had been established. Such standards would have enabled management to better evaluate program results and identify areas which need improvement.

The commission contracted with a consultant to prepare evaluations of the individual and customized training program areas. Initially, a consultant was contracted to prepare evaluations for calendar years 1993, 1994 and 1995, but the Commission deemed the work to be incomplete and thus a second consultant was contracted to re-evaluate the data in June 1997. This contract contained two phases, the second of which is scheduled for completion in September 1999.

Although the phase one report issued for calendar years 1994, 1995 and 1996 contained accumulated data pertaining to contracts extended during those years, the consultant did not evaluate or critique the results. The contract in process is expected to result in more evaluative data, but does not require the development of performance standards necessary to support a judgment of performance.

The consultant reported 67 percent of the people were employed full-time after receiving training. In addition, two years after losing their jobs, grant recipients were earning 82 percent of their pre-unemployment wages. The results of an analysis performed as part of our audit were consistent with the consultant's finding; however, since performance standards were not established, it could not be determined if these results were acceptable.

The consultant also provided survey results related to grantee satisfaction with the program. Examples of the results were that over two-thirds of the companies surveyed felt that their customized training grant had a significant positive impact on their company and 95 percent would recommend that other companies participate in the program. Eighty-six percent of participants who received individual training grants rated the program good or excellent. The accuracy of these results was not verified during the audit.

Recommendation

We recommend SETC establish performance standards as required by statute, thus enabling management to better evaluate the effectiveness of the program.

Commission's Response

The SETC has established performance measures to be used against all education, employment and training programs in the State. Those measures are placement in a job, wage at placement, duration of employment, and increase in earnings. The SETC, through its Evaluation Committee, is working to establish numerical goals by which all programs will be judged and upon which funding will be contingent. In accordance with the Workforce Investment Act of 1998, this will be in place by July 1, 2000.

We believe the auditors do not fully comprehend the social science research or program evaluation done in connection with the Workforce program. The auditors placed little or no reliance on the comparative analysis technique as is evidenced by their statement in paragraph three on page 6, "the consultant did not evaluate or critique the results." Comparative analysis is a recognized evaluation technique, which is acceptable to many including distin-guished individuals on the SETC's Evaluation Committee and the State Legislature.

Furthermore, the consultant was never engaged to critique the results. But, of course, the consultant was to evaluate the effectiveness of the program according to the SETC's statutory obligation, which is obviously different from what the auditors were reviewing. This obligation includes the following: "The Commission shall set such standards as it deems appropriate regarding comparisons of the former trainees with groups of otherwise similar individuals who did not receive the training." NJSA 34:15D-8.

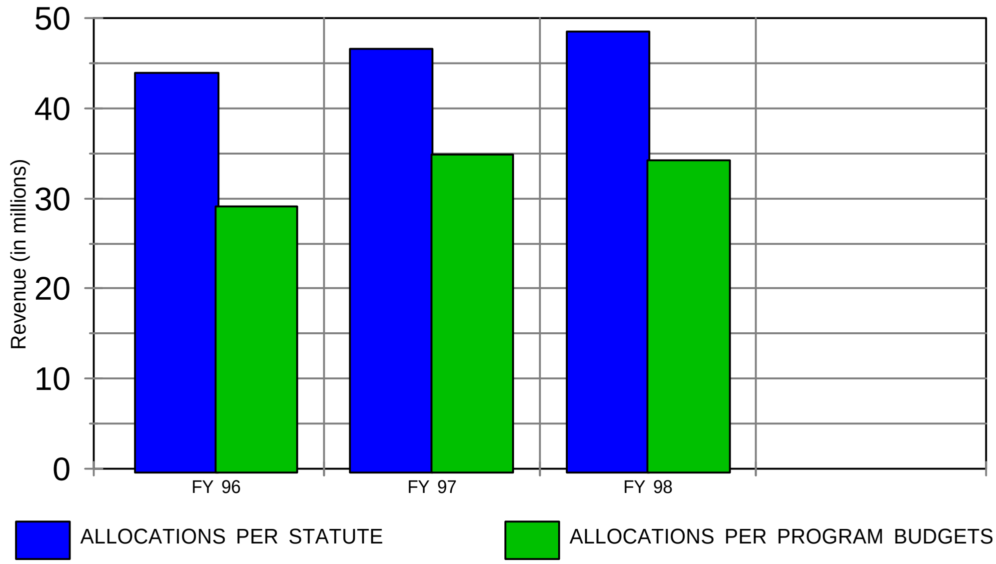
Program Funding Allocations

The accounting system should reflect statutory revenue allocations.

WDPP is funded by a payroll tax which is deposited to a special revenue fund established by legislation. Each program area's annual revenue allocation is set by statute. Budgets are calculated and monitored by the Controller's Office of the Department of Labor. Spending levels are controlled through this process and individual spending accounts for each program are recorded in the state accounting system.

A review of the various program accounts disclosed that the amounts allocated in the state accounting system were significantly underbudgeted based upon actual revenues received. Furthermore, accounts were not subsequently adjusted to reflect actual revenues received by the program. This is important since it affects program allocations and carry-forward balances which remain available for program use.

ITG AND CUSTOMIZED TRAINING ALLOCATION



Although the Controller's Office maintained an internal allocation spreadsheet which tracked the statutory revenue allocations and spending levels, our testing disclosed inaccurate expenditure amounts on the spreadsheet when compared to the state accounting system. Thus, while the spreadsheet properly allocated revenues, expenditures as well as carry-forward amounts could not be relied upon.

Fiscal communication related to the program should be improved.

As a result of conservative revenue estimates and budgeting incorrect carry-forward amounts, the budgets we reviewed did not accurately reflect the actual funds available for spending in each program area. Our analysis of the budgetary process further disclosed an apparent breakdown in communication between the Controller's Office and each program's management. Individual Training Grants program management was unaware of the availability of carry-forward balances for current year's spending and thus had not budgeted the balances for spending. Both programs we reviewed indicated that administrative decisions were made which affected the level of program spending based upon budgeted funds. Policies were instituted whereby individuals or groups otherwise eligible under the law were ex-cluded due to funding level concerns (see PROGRAM ELIGIBILITY).

At the same time, appropriation language will have required the fund to transfer approximately $100 million to the Department of Human Services for the Work First program by the end of fiscal year 2000. In order to make adequate administrative spending decisions, such as targeting groups or industries to exclude from the grantee process due to funding limitations, program management should possess a better understanding of the resources available.

Recommendation

We recommend the Controller's Office review its allocation methods used to estimate revenue in the state accounting system for all program areas. The Controller's Office and program management should also work to improve communications regarding funding availability to facilitate informed decisions.

Department's Response

While the exact amount of revenue received was not allocated on the State's accounting system, at no time were allocations that were made not in accordance with the statute; after taking into consideration action taken in the annual appropriations act. We will strive to improve the fiscal communications between the Division of Accounting and program staff, and where appropriate within the individual program components themselves.

Program Eligibility

The program should consistently follow policies and procedures governing eligibility.

Program eligibility was established by legislation and interpreted through the administrative code and internal administrative policies and procedures. Our review found an inconsistent application of eligibility policies for the programs included in our scope.

Customized Training

The customized training program practiced an unwritten policy excluding retail and health care industries from the program. The policy was based on the size of these industries and their usage of low skilled and low wage employees. Management has decided that its focus under the law is to upgrade skills and thus earning potential and that within the health care and retail groups, this would be a difficult task. Additionally, because of the size of these industries in terms of employees, program management did not feel it could accommodate them financially and discouraged them from applying for grants even though projections of cost were not made.

We also noted that formal policies had not been developed containing all the criteria used to evaluate grant applicants. Such guidelines would reduce the subjective nature of the award decisions. Testing of denied customized training applications disclosed the use of informal policies to deny otherwise eligible grant applicants. For example, a review of the applications rejected during fiscal years 1998 and 1999 disclosed three applicants who were denied for having financial statements which were "too strong". Neither the law or administrative procedures in place at the time indicate a restriction if the company financial statements are too strong.

Furthermore, our review found companies denied a grant received a generic form letter that stated they were denied due to the limited resources of the program. These letters were inaccurate since the files indicated that the companies were denied for other reasons, not the lack of funds. The applicant should have been informed of the real reason they were denied.

<u>Individual Training Grants (ITG)</u>

The ITG program was impacted by the issuance of Administrative Instructions which were released by the Bureau of Program Services and Standards to provide program guidance in applying Department of Labor policy. An instruction issued in April 1995 clarified policy regarding an ITG target group origi-nally established in the WDPP Guidelines dated May 1994. The group referred to potential individual training grant participants who met certain "target" criteria in order to qualify for a grant. Examples of the target criteria were that a person worked five of the last seven years and qualified for a 26 week unemployment claim. These target criteria were to be used by counselors in addition to the criteria stated in the law when determining a client's eligibility. The use of these target groups appears to have come about due to a perception, on the part of program management, that resources were limited. The need for restrictive targeting of grantees seems to have diminished since fund balances have been carried forward since fiscal year 1996. In addition, unallocated amounts from earlier years could have been allocated to the program in the state accounting system, further impacting the level of target criteria needed. Since 1995, the implementation of these target criteria could have resulted in an otherwise eligible participant being denied training.

Our audit review included field visits to eight employment service offices where WDPP individual training grants are issued. Surveys and analysis conducted at these offices disclosed additional consequences of the target criteria because there was inconsistent application of the criteria from office to office. Applicants would be required to meet a different number of the target criteria depending upon the service office visited. Thus, an individual who was deemed ineligible for a grant at one office could qualify for training at another office.

Recommendation

We recommend the department develop policies and procedures for determining eligibility of customized training grants and inform grant applicants of the actual basis for denial. In addition, ITG management should ensure policies and procedures are consistently applied by all service offices throughout the state. A review of the need for target restrictions within the ITG program should be completed in conjunction with the current levels of funding available to the program.

Department's Response

Management uses the collective resources of the N.J. Department of Labor and its professional judgement to assist businesses and workers in the State in a manner consistent with the intent of the governing legislation. The overwhelming positive feedback received from participating businesses and workers in the State is testament to the success of the program.

A primary focus of the program is to support the manufacturing sector in New Jersey. Jobs in this sector traditionally pay a higher salary and provide better benefits than comparable jobs in other sectors. In addition, resources are targeted to this industry because of the multiplier effect manufacturing employment has on other parts of the economy.

The Customized Training program does practice a policy of being cautious in our support for the retail and health care industries. The retail industry generally employs low wage workers, often in a part-time environment with high attrition. Coupled with the program's legislative focus, we have not provided any significant resources to this sector.

In recent years, the health care industry has undergone a wrenching transformation because of mergers, acquisitions, and the impact of health maintenance organizations resulting in facility closures and mass layoffs. Hospitals generally have had significant overcapacity. In view of these conditions, the Customized Training program has judiciously provided assistance to a select number of hospitals and health care facilities, particularly if other public policy objectives can be met as retention of jobs in urban areas.

As to the Individual Training Grants (ITG) additional information is now being made available which should enable more consistent policies and procedures.

Progress and Compliance Monitoring

Monitoring of grantees should be improved.

Audit analysis of the programs included in our scope disclosed weaknesses in the department's procedures to follow up and monitor grantee progress during and after the completion of the contract. Our analysis of both programs disclosed significant weakness in compliance monitoring and follow-up.

Customized training grantees are required by N.J.A.C. 12:23-2 to submit a closeout report which details training results. The report provides information from the grantees perspective regarding the impact training has had on company performance. Additionally, grantees receiving services must hire or retain trainees in permanent employment for a period of not less than six months for each individual who completes training. Grantees receiving financial assistance for customized training services must remain within the state for three years following the end date of the training contract or return all funds provided by the state. Customized training closeout reports are not being reviewed and compared with the original contract by program management. Post audits of customized training grants over $100,000 are performed by independent accountants. The audits included grantee compliance with the contract; however, the audit reports are not detailed enough to replace monitoring and follow-up by program staff. Subsequent reviews were not made to determine if trained employees were retained. We also tested seven grantees to ensure the program completed periodic monitoring reports to comply with administrative code. In all seven cases, one or more required monitoring reports were missing.

The ITG program monitors its participants with periodic progress reports during training. These progress reports must be submitted by vendors prior to receiving payment for training services related to a particular grantee. Also, counselors follow up with each grantee to obtain data concerning job place-ment. Testing of individual training participants disclosed 89 of 352 progress reports were missing from the grantees files. During our visits to the eight field offices, we noted that grantee files usually did not indicate follow-up upon the completion of training. This was further supported by the fact that the WDPP system had not been updated to indicate the completion for 49 of 150 completed contracts tested.

The ITG program management felt that these monitoring functions were lacking due to the limited amount of human resources available to perform follow-up. Counselors prioritize current contract work over completed contract follow-up. However, our audit fieldwork noted one office, Newark, in which file completion and follow-up were very well documented. The office, which handles an above average workload, has two counselors and a supervisor to process contracts. We would suggest that management review the Newark operations with regard to follow-up procedures in order to successfully document contract completion while limiting the need for additional human resources.

Recommendation

We recommend the WDPP review its monitoring requirements per administrative regulation and institute procedures to ensure compliance. We also recommend that ITG offices be reminded of the importance of contract completion procedures and review the practices followed in Newark for implementation in other offices. The monitoring and follow up of the success of individual and customized training is essential in determining the effectiveness of the program and identifying areas for improvement.

Department's Response

The Department is very closely involved with each grantee from the initial grant development to the final close-out. The Department assigns a Customized Training representative to each grant. This representative is continuously in contact with the grantee including on-site visits. Their job is to assure that the grantee is in compliance with the intent of the award. We believe this approach is a positive and effective method to monitor grant activity.

The Department, where practical and cost effective, will strive to improve the monitoring of the program. Although there are weaknesses, we believe they are offset by other controls. We agree that audits cannot fully replace monitoring and follow-up by program staff. However, a report by a certified public accounting firm on the customers compliance with the contract certainly provides a level of confidence for the program even if it (the report) is not detailed. Since most Customized Training grants are over $100,000, the overall percent of awarded grants audited should be significant. When audits have pointed out issues, they have been appropriately followed up by staff.

Follow-up for individual training grants is difficult, but we appreciate the recommendation to review the Newark operations in order to implement procedures/practices which have made that office successful in the follow-up area.

WDPP Database System

The WDPP database should contain complete up-to-date information.

The WDPP information system is a database containing information relating to individual training grant contracts. The system produces invoices for vendor payment and captures program data which can be used for monitoring program results.

We reviewed a sample of reports generated by the system for propriety and noted inconsistencies within the data. While we noted that each grantee's contract was entered into the system, updates to the contract for completion and job placement were lacking. When we questioned program officials about the incompleteness of the reports, we discovered that no one was currently assigned the responsibility of maintaining and reviewing system reports for accuracy. Survey work at the field offices confirmed the fact that many of the reports sent out periodically were just being set aside and not used because they were difficult to understand or the users were aware of the incompleteness of the reports. We noted one regional office in which a management decision concerning performance was based upon incomplete report data. Additionally, a field office informed us that until a year ago, they were not aware of their responsibilities for updating the contract data in the system.

The system reports, if accurate, would provide timely monitoring information and statistics regarding ITG training. It appears that personnel within the ITG program who were responsible for updating contract records were either unaware of that responsibility or too overwhelmed to update the grantees' data.

Recommendation

We recommend that WDPP management document and implement policies and procedures regarding the WDPP system to ensure adequate maintenance in the future. Management has informed us that a new system is being considered for the program. We caution management that the weaknesses noted were not system related, but due to a lack of WDPP personnel understanding the system and their respon-sibility for updating the records. A new system combined with the same lack of understanding will not correct the problem.

Department's Response

We agree that the data base should contain complete and up-to-date information. The program has already taken action by assigning a staff person to this project. A new system is being developed and controls will be developed to address this issue. Staff will be re-educated as to how to process the required information.