PERFORMANCE AUDIT REPORT

Reviewing the Use of Job Service Moneys In Several Service Delivery Areas in Kansas

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
November 1997

97PA60

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about $8 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legislators or committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

LEGISLATIVE POST AUDIT COMMITTEE

Representative Eugene Shore, Chair
Representative Richard Alldritt
Representative Doug Mays
Representative Ed McKechnie
Representative Dennis Wilson

Senator Lana Oleen, Vice-Chair
Senator Anthony Hensley
Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
FAX (785) 296-4482
E-mail: LPA@mail.ksleg.state.ks.us

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.

LEGISLATURE OF KANSAS
LEGISLATIVE DIVISION OF POST AUDIT

MERCANTILE BANK TOWER
800 SOUTHWEST JACKSON STREET, SUITE 1200
TOPEKA, KANSAS 66612-2212
TELEPHONE (913) 296-3792
FAX (913) 296-4482
E-MAIL: LPA@postaudit.ksleg.state.ks.us

November 10, 1997

To: Members, Legislative Post Audit Committee

Representative Eugene Shore, Chair
Representative Richard Alldritt
Representative Doug Mays
Representative Ed McKechnie
Representative Dennis Wilson

Senator Lana Oleen, Vice-Chair
Senator Anthony Hensley
Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

This report contains the findings, conclusions, and recommendations from our completed performance audit, *Reviewing the Use of Job Service Moneys In Several Service Delivery Areas in Kansas.*

This report includes recommendations for improving the Department of Human Resources' oversight of the Job Training Partnership Act program, ensuring that information contained in preliminary drafts of audit reports is used appropriately, and ensuring that Department staff and others are in compliance with the Kansas Open Meetings Act.

We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

Legislative Division of Post Audit

Question 1: How Have the Program Results at Heartland Works Compared with Results at Other Service Delivery Areas?

In comparing Heartland's results with other service delivery areas' results, we used the information reported by each area for seven core performance measures. *The U.S. Department of Labor sets national performance measurement standards for job training programs. Because economic conditions and client characteristics differ across the country and within each state, the Department of Human Resources adjusts the standards within parameters established by the federal government to reflect what each service delivery area is expected to accomplish. Service delivery areas report their performance data to the Department as required, but the Department doesn't verify the accuracy of those data. Because no other data were available for comparing service delivery area results, we had to use this information in our audit.* .... page 7

For four of the past five years, Heartland's results have compared very favorably with other service delivery areas. *We computed an average score for each service delivery area to determine the extent to which Heartland and the other four service delivery areas met or exceeded the target standards for each performance measure. Heartland (in northeast Kansas) had the second-highest average score from 1993 through 1996, but dropped to fourth place in 1997. Heartland has compared most favorably with other service delivery areas on performance measures related to training welfare clients and youth. For the one year (fiscal year 1996) that Heartland provided job training in Service Delivery Area III (Kansas City), it didn't improve the area's overall performance.* .... page 8

Conclusion .... page 9

Recommendation .... page 10

Question 2: What Issues Led to the Recent Audits of Heartland Works, And What Steps Have Been Taken to Resolve Them?

Allegations that Heartland Works had mishandled personnel records, misused federal moneys, and reported false performance statistics led to the first of two audits. *The Department's and the Service Delivery Area III private industry council's relationship with Heartland began to deteriorate in late 1995. At about the same time, the Department received complaints about improper activities going on at Heartland. The Department's preliminary investigations supported allegations that Heartland Works* .... page 11 *had mishandled personnel records and misused job training moneys. The Department subsequently hired an independent auditor who found that Heartland didn't comply with its own policies and procedures for procurements, and that travel expenses lacked proper documentation. The auditor questioned about $375,000 in expenditures.*

The Department hired the independent auditor to conduct a second audit based on the preliminary results of the first one, and on complaints received while that audit was being conducted. *While the first audit was under way, the Department received four grievances alleging that Heartland wasn't following its personnel policies and procedures. The second audit showed that the salaries of certain Heartland executives were $15,000 to $25,000 higher than the salaries of similar staff in other service delivery areas. In all, the audit questioned about $64,000 of Heartland's payroll expenses.* .... page 12

As of August 1, 1997, no questioned costs remained from the second audit, and the amount of costs disallowed by the Department from the first audit had been substantially reduced. *Through the audit resolution process, the Department has reviewed many documents submitted to it by Heartland. The Department has accepted much of this documentation, so that only about $25,000 of questioned expenditures from the first audit are still being contested.* .... page 13

Department officials indicated the first audit's findings and the Department's concerns about Heartland's management practices led the Department to not renew its contract with Heartland. *The Department wasn't obligated to renew Heartland's contract, and in a letter dated April 17, 1996, the Department notified Heartland it wouldn't be renewing its contract to provide job training in Area III. Shortly thereafter, Department officials discussed the Heartland situation with members of the Area's local elected officials board and the private industry council. We noted several problems with this. First, it appears the local elected officials and private industry council may have violated the Kansas Open Meetings Act by calling an executive session to discuss matters involving Heartland. Second, the Department shouldn't have been discussing a draft audit report with these people at that time because the report was still subject to change. Third, the Department doesn't have procedures to address important issues like who can review draft audit reports and when the audits become public information. The lack of procedures may have contributed to the inappropriate release of the draft audit report.* .... page 15

Conclusion .... page 17
Recommendations .... page 18

Question 3: Are Current Administrative Costs for Programs Funded With Wagner-Peyser Moneys Excessive Compared With Administrative Costs in Past Years or in Other States?

Federal moneys the Department receives under the Wagner Peyser Act are used to match workers with job vacancies. *States receive Wagner-Peyser moneys each year to help people find jobs and to provide employers with information about local labor markets.* .... page 19

This audit was conducted by Joe Lawhon, Laurel Murdie, and Barbara Coultis. Leo Hafner was the audit manager. If you need any additional information about the audit's findings, please contact Mr. Lawhon at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (785) 296-3792, or contact us via the Internet at: **LPA@mail.ksleg.state.ks.us.**

Reviewing the Use of Job Service Moneys In Several Service Delivery Areas in Kansas

The Department of Human Resources administers employment, industrial safety and health, unemployment, and job training programs in Kansas. The Department has four divisions: Workers Compensation, Staff Services, Employment and Training, and Employment Security.

The Division of Employment and Training has nearly 300 employees located in 23 job service offices in five service delivery areas across the State. Each of the service delivery areas administers a number of federally funded programs including the Job Training Partnership Act and the Wagner-Peyser Act.

Under the Job Training Partnership Act, the federal Department of Labor allocates money to each state based on a formula. The Department then divides the funds received by Kansas among the five service delivery areas. Each delivery area operates programs that focus on training economically disadvantaged people to enter the labor force. Within each service delivery area are two entities—a Private Industry Council and a Local Elected Officials Board—that determine how funds are administered and service delivery area activities are provided.

The Wagner-Peyser Act provides funding to operate programs that help match workers with job vacancies, and to provide employers with information about labor markets.

Legislators have raised questions about both of these programs. They are interested in knowing how Heartland Works (a private entity that provides job training services in several counties in Northeast Kansas) has performed relative to entities providing the same services in other areas of the State. They also want to know if Heartland was treated fairly during a recent series of audits that resulted in non-renewal of Heartland's contract in one area. Finally, Legislators want to know if Kansas appears to be spending too much on administrative costs for programs funded under the Wagner-Peyser Act.

To address these concerns, this audit answers the following questions:

1. **How have the program results at Heartland Works compared with results at other service delivery areas in Kansas?**

2. **What issues led to the recent audits of Heartland Works, and what steps have been taken to resolve them?**

3. **Are current administrative costs for programs funded with Wagner-Peyser monies excessive compared with administrative costs in past years or in other states?**

To answer these questions, we reviewed the Job Training Partnership Act, the Wagner-Peyser Act, and federal regulations that implement these acts. We also reviewed other materials prepared by the Department of Human Resources, such as policy and procedure manuals, which provide additional interpretations and guidance. We read the contract between Heartland Works and the Department, the two audits of Heartland Works, and reviewed numerous documents that the Department and Heartland Works exchanged while attempting to resolve the two audits' findings. We also interviewed employees from Heartland, the Department of Human Resources and the U.S. Department of Labor, along with a few members of the Service Delivery Area II private industry council. We reviewed performance data submitted to the Department by each service delivery area. We examined the Department's accounting records that kept track of Wagner-Peyser expenditures, and contacted other states to obtain comparable financial information. In conducting this audit, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

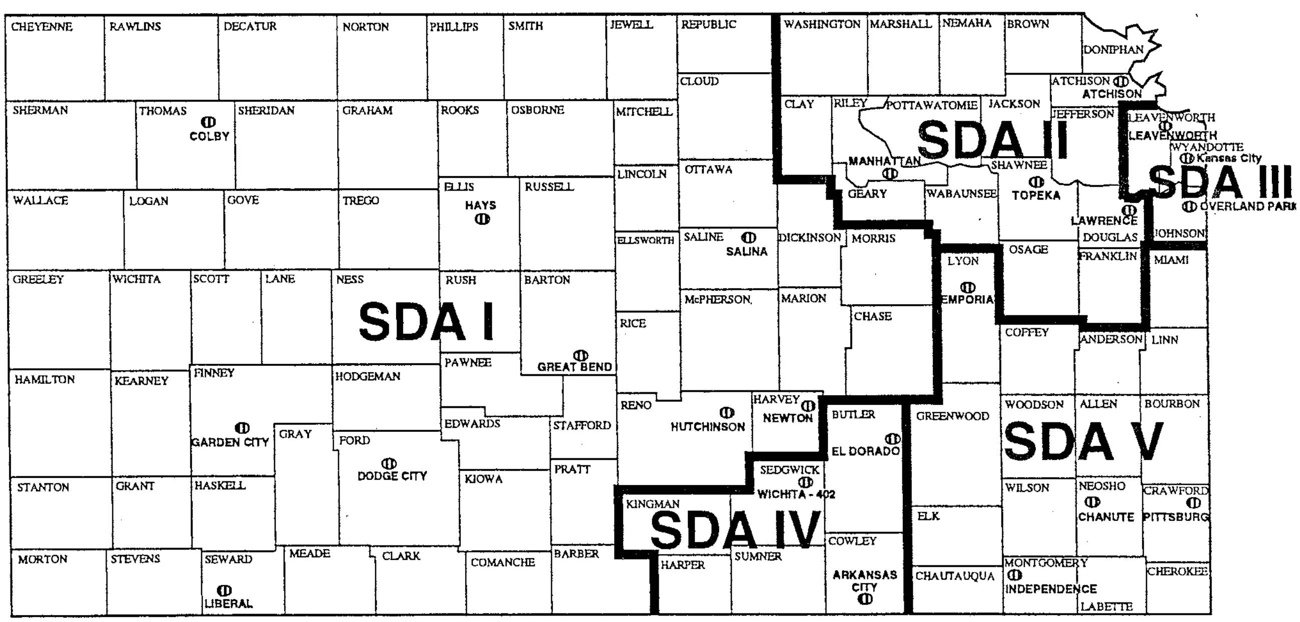
Overview of the Job Training Partnership Act and Heartland Works' Role in Providing Job Training Services

Congress passed the Job Training Partnership Act in 1982 to help prepare youths and adults who face serious barriers to employment. Services provided under the Act are intended to increase employment and earnings, improve educational and operations skills, and decrease welfare dependency. These services include vocational training, basic skills in reading, writing, and mathematics, and on-the-job training.

Each state receives an annual allocation under the Act to operate its Job Training Partnership Program. Kansas has received amounts ranging from $13 million to $17 million a year in recent years. The Governor has designated the Department of Human Resources as the entity responsible for administering these moneys.

The Act requires each state to be divided into geographic units known as service delivery areas, and provides fairly specific guidelines for how the funds should be allocated among them. Factors that are considered include the numbers of unemployed people and people receiving welfare assistance in each area. Kansas has five service delivery areas, as shown in the map below.

Current Service Delivery Area Structure and Job Service Office Locations



Each service delivery area has a somewhat complex administrative structure. According to federal regulations and state policy, each service delivery area must have a local elected officials board consisting of up to 18 locally elected officials. Those officials can come from cities with populations exceeding 100,000 or from any county in the service delivery area.

The local elected officials board chooses a private industry council, whose primary responsibility is ensuring that job training services are delivered properly and that moneys are spent in accordance with the Act.

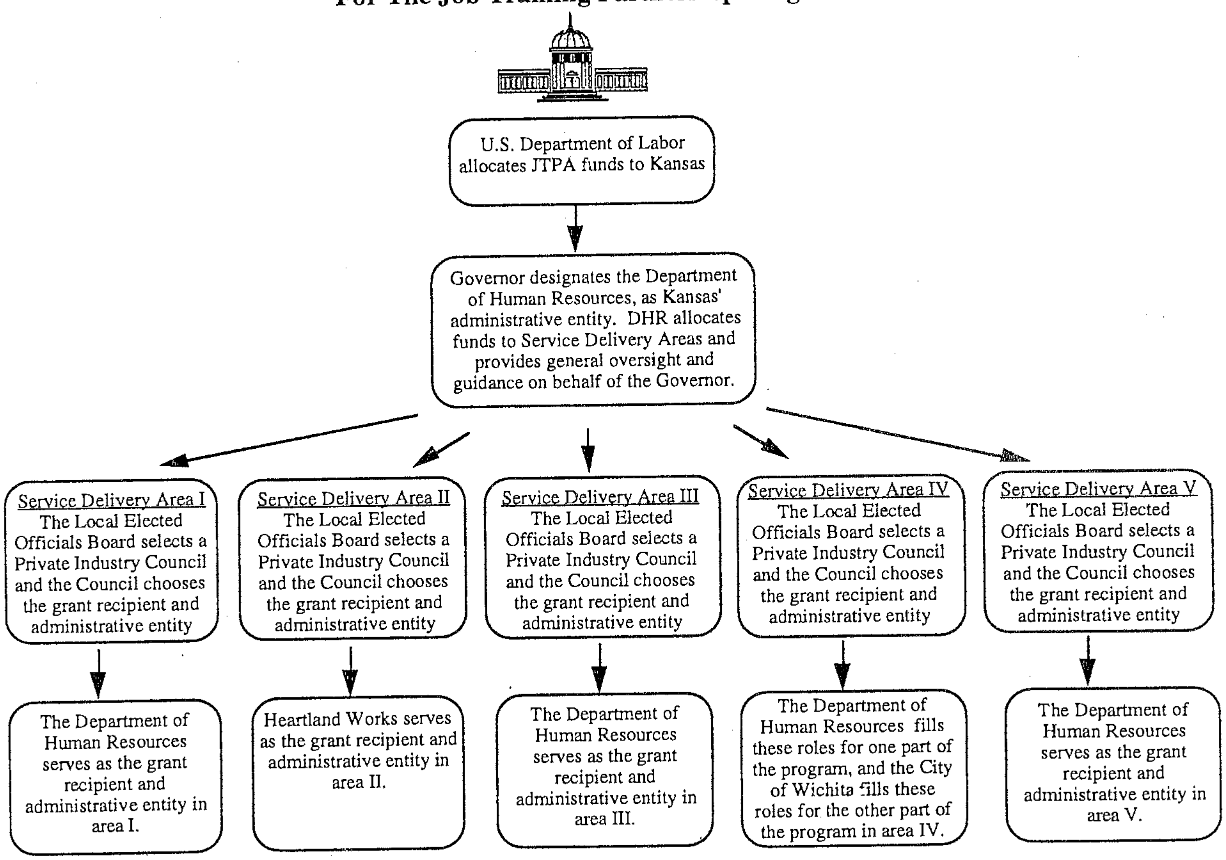
The private industry council in turn selects both a grant recipient and an administrative entity, whose primary tasks are as follows:

- the grant recipient is the entity authorized to receive Job Training Partnership Act funds at the local level
- the administrative entity provides the day-to-day job training services

In some cases, the grant recipient and the administrative entity may be one and the same. This structure is illustrated in the accompanying graphic.

As the graph shows, the Department currently is both the grant recipient and administrative entity in Service Delivery Areas I, III, and V, and it shares this designation with the City of Wichita in Area IV.

Flow of The Money and Responsibilities
For The Job Training Partnership Program



Heartland Works provides job training in Service Delivery Area II (northeast Kansas), and used to provide it in Service Delivery Area III (Kansas City). Heartland has provided job training services since 1987, when the private industry council in Area II decided it wanted to run the program, and it incorporated a non-profit entity that later became known as Heartland Works. Heartland's budget for fiscal year 1998 is $2.1 million and it employs 16 full-time-equivalent staff to operate Service Delivery Area II.

Heartland also administered Service Delivery Area III (Kansas City) in fiscal year 1996 under contract with the Department. From 1983 through 1994, the job training program in Area III was administered by a non-profit corporation—Kansas Private Industry Council, Inc. In 1994, local elected officials and members of the private industry council in Area III began to question whether this entity should administer the program. Concerns centered on liability issues associated with a lawsuit, as well as inappropriate expenditures of thousands of dollars for a consultant's contract.

In January 1995, the private industry council designated the Department of Human Resources as the new grant recipient and administrative entity for Area III, effective July 1, 1995. Department officials indicated they couldn't take on this new responsibility, but suggested that Heartland be hired. The private industry council accepted this recommendation, and the Department entered into a sole-source contract with Heartland to operate Service Delivery Area III for fiscal year 1996. The Department didn't renew this contract, and took over Area III in fiscal year 1997.

How Have the Program Results at Heartland Works Compared with Results at Other Service Delivery Areas?

To compare Heartland's results with other service delivery areas, we used the information reported by each area for seven performance measures. Department staff don't verify the accuracy of those data, but we had to use them because no other data are available for comparing service delivery area results. Those data show that Heartland's results in Service Delivery Area II for the past five years compare very favorably with other service delivery areas. Heartland ranked second out of five service delivery areas from 1993 through 1996, but its ranking dropped to fourth in 1997. Heartland also provided job training services in fiscal year 1996 for the Kansas City area; during that year, Heartland didn't improve the area's performance. These and other findings are discussed in the sections that follow.

In Comparing Heartland's Results With Other Service Delivery Areas' Results, We Used the Information Reported by Each Area For Seven Core Performance Measures

The federal government has established seven core performance measures for job training programs funded by the Job Training Partnership Act. Those core performance measures are described below:

Adult employment rate at follow up	measures the percent of adults who were employed at least 20 hours/week during the 13th calendar week after they had completed job training
Adult weekly earnings at follow up	measures the average weekly earnings for these adults
Welfare adult employment rate at follow-up	same as the "adult employment rate at follow up," but includes only those people who were receiving welfare benefits at the time they enrolled in a job training program
Welfare adult weekly earnings at follow up	measures the average weekly earnings for those adults who were on welfare at enrollment
Youth entered employment rate	measures the percent of youth who were employed at least 20 hours/week at the time they completed the program
Youth employability enhancement rate	measures the percent of youth that attained certain educational or other skills at the time they completed the program
Entered employment rate	measures the percent of all participating dislocated workers who were employed at least 20 hours/week at the time they completed the program

The U.S. Department of Labor sets national standards for the employment rates or weekly wages that must be met for these performance measures. Because economic conditions and client characteristics differ across the country and within each state, standards are adjusted to reflect what each individual service delivery area is expected to accomplish. In Kansas, the Department makes these adjustments within parameters established by the federal government. Officials in each service area are required to keep track of and report actual figures for these performance measures.

Individual states also can establish additional performance measures on their own. Kansas has had its own performance measures in the past, but Department officials told us they stopped using them in July 1997 because they didn't think the targets were realistic, they couldn't get reliable data, and they thought the measures may have provided a disincentive to serve welfare clients. Because of these problems, we didn't use the State performance measures for any of our comparisons.

Service delivery areas in Kansas report their performance data to the Department of Human Resources' central office as required, but the Department doesn't verify the accuracy of those data. Officials in the five service areas submit monthly reports to the Department. These reports provide information about actual performance data, including numbers and characteristics of clients served, hours worked, and wages earned. The Department uses this information to determine whether the service delivery areas are meeting the performance standards, and to adjust performance standards for future periods.

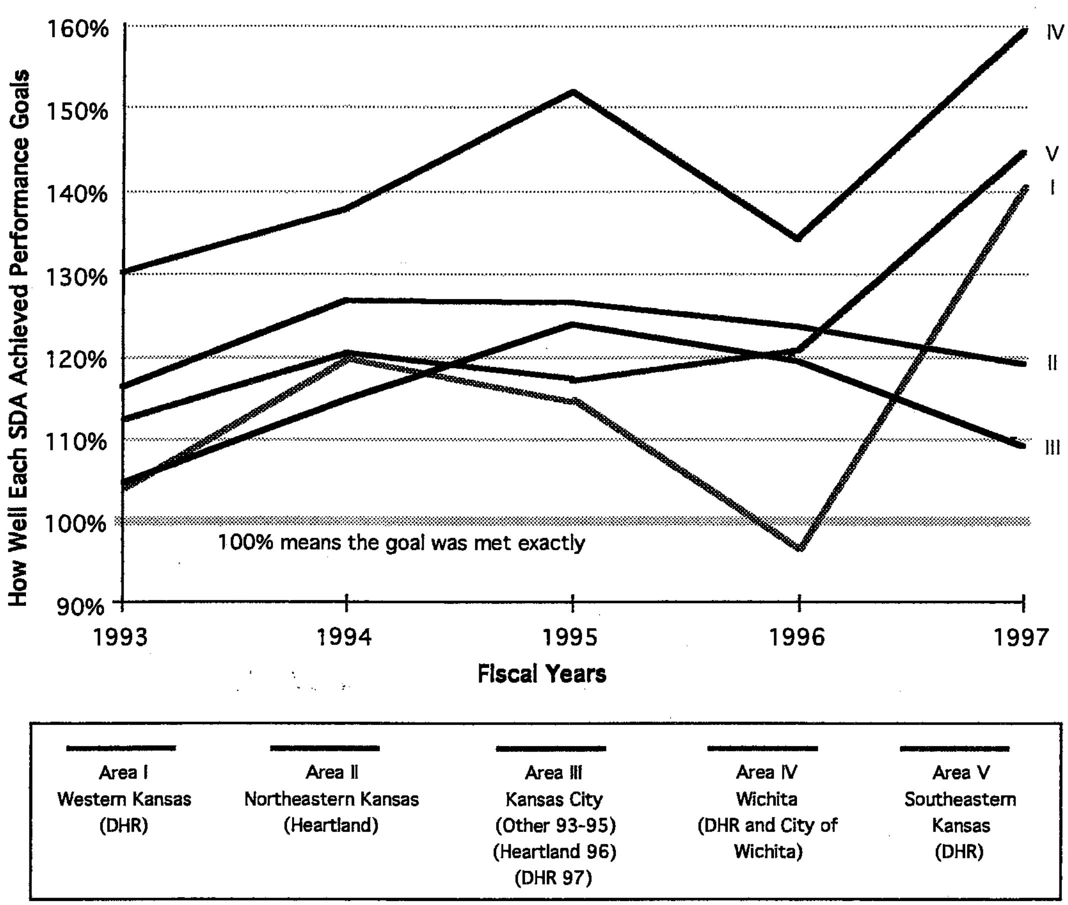
Despite the importance of this information in monitoring the success of the program, we found that the Department doesn't verify the accuracy and reliability of the data being reported. Within the timeframe and scope of this audit, we couldn't verify the accuracy of those data for all five service delivery areas, but we did review a sample of data reported by Heartland for fiscal year 1997. We traced the data back to Heartland's source documents and contacted former employers to verify hours worked and wages earned by program participants. Although we found no material errors in the data reported by Heartland, this work wasn't extensive enough to allow us to conclude that the data are accurate and reliable as a whole. But because no other data are available for comparing service delivery area results, we had to use it.

For Four of the Past Five Years, Heartland's Results Have Compared Very Favorably With Other Service Delivery Areas

We analyzed the extent to which Heartland and the other four service delivery areas met or exceeded their own target standards for each performance measure. In making this comparison, we computed average "scores" for each service delivery area; that score is expressed as a percentage. For example, if the standard for the "adult employment rate at follow-up" measure for Service Delivery Area I was 69% and its actual result was 75%, the average score we calculated was 109% (75% divided by 69%). The scores for all seven measures then were averaged into one overall score per year. We did that for each service delivery area, for each of the past five years. The results of our computations are shown in the accompanying graphic.

As the graph shows, Heartland (SDA II) had the second-highest average score from 1993 through 1996. That means although all five service delivery areas generally exceeded the standards established for their areas those four years, Heartland exceeded its standards by more than most other service delivery areas.

Annual Average Performance of Service Delivery Areas for Five Years



Heartland's ranking dropped to fourth place in 1997. That year, Heartland didn't meet its target standards for two performance measures—the adult employment rate, and the employment rate for dislocated workers. Heartland officials attributed the decline in performance in Area II in fiscal year 1997 in part to turmoil caused by recent audits of its operations. Those audits will be discussed later in this report.

Although Heartland provided job training in Service Delivery Area III (Kansas City) for one year, it didn't improve the area's overall performance. The graph also shows that Service Delivery Area III's ranking was at or near the bottom all five years. The one full year that Heartland administered Area III—fiscal year 1996—its ranking was fourth out of five areas. In 1996, Area III didn't meet its target standards for two performance measures—the adult employment rate, and the employment rate for dislocated workers—the same two Heartland missed in Service Delivery Area II in 1997.

At the start of fiscal year 1997, the Department began to directly administer Service Delivery Area III. That year, Area III's ranking dropped to fifth place. Department officials couldn't pinpoint specific reasons for the decline. They told us that after Heartland learned its contract wouldn't be renewed, it reduced its efforts for the remaining two months of fiscal year 1996. Department officials said this made it more difficult for the Department to be effective in fiscal year 1997 because it had to perform some work that hadn't been done, which put the Department at a disadvantage during that year.

Over the past five years, Heartland (in Service Area II) has compared most favorably with other service areas on performance measures related to training welfare clients and youth. The comparisons for each of the seven performance measures are shown in the series of line graphs in Appendix A.

The graphs show that Heartland scored very well on three measures—the adult employment rate for welfare clients, the youth employment rate, and the youth employability enhancement rate. However, it had the worst average score for the performance measure that deals with dislocated workers.

Conclusion

Based on available information, it appears that Heartland Works has done a relatively good job of providing job training services in Service Delivery Area II in northeast Kansas. By most measures, Service Delivery Area II had the second best performance from 1993 to 1996, although its performance slipped somewhat in 1997. Heartland's performance in Service Delivery Area III, which it administered during fiscal year 1996, wasn't as good. That service delivery area ranked fourth of the five service delivery areas that year.

Because of the incentive for service delivery areas to report positive outcomes—especially if they know those figures aren't going to be reviewed—it's important for the Department to at least spot check the accuracy of some reports.

Recommendation

To ensure that service delivery areas report accurate and reliable performance data to the Department of Human Resources, the Department should begin to randomly check the data being submitted to it. This work could vary from periodically checking a small sample of data submitted, to having staff conduct periodic on-site reviews. The results of these reviews should be reported to management staff so that corrective action can be taken as needed.

What Issues Led to the Recent Audits of Heartland Works, And What Steps Have Been Taken to Resolve Them?

Two fairly recent audits reviewed Heartland's activities in providing job training services in both Service Delivery Area II (northeast Kansas) and Service Delivery Area III (Kansas City). The Department decided to conduct the first of two audits based on allegations that Heartland had misused federal moneys and reported false performance statistics. The first audit questioned $375,000 in Heartland's expenditures for such things as computers and accessories, travel, and furniture. The second audit questioned about $64,000 of Heartland's payroll expenditures. Following a lengthy resolution process, the Department had accepted all but $25,000 of those questioned costs.

Department officials told us the findings from the first audit and concerns about Heartland's management practices led the Department to not renew Heartland's contract for Service Delivery Area III. We noted several problems related to the handling of the audits, including a potential violation of the Open Meetings Act by the local boards that oversee Area III, discussion of findings before the audit report was final, and the Department's lack of procedures related to the distribution and discussion of draft audits. These and related findings are discussed in more detail in the sections that follow.

Allegations that Heartland Works Had Mishandled Personnel Records, Misused Federal Moneys, and Reported False Performance Statistics Led to the First of Two Audits

As discussed earlier, Heartland Works has administered the job training services program in Service Delivery Area II (northeast Kansas) since 1987. The Department also contracted with Heartland Works to provide job training services in Service Delivery Area III (Kansas City) for fiscal year 1996.

The Department's and the Service Delivery Area III private industry council's relationship with Heartland began to deteriorate in late 1995. Through interviews with Department staff and members of the private industry council, we learned that these two organizations had become increasing disenchanted with Heartland's executive director and no longer trusted him. They cited several reasons, including the following:

- Service Area III elected officials and private industry council members knew Heartland's executive director wanted the Kansas City and Topeka service delivery areas to merge into a single area. Most of these officials didn't support the merger, and thought the executive director had acted inappropriately when he sought the signature of a former Kansas City area private industry council chair—who purportedly was very ill—for a letter supporting this proposal.

- Officials from the Department and the private industry council had heard rumors about questionable expenses, such as furniture purchases, travel expenses, and salary allocations. They also said they thought Heartland's executive director hadn't provided straight answers about the expenditures.

Preliminary investigations supported allegations that Heartland Works had mishandled personnel records and misused job training moneys. In October 1995, the regional office of the U.S. Department of Labor received a complaint from a former Heartland employee. That employee alleged that at least one former employee's personnel records were found blowing down the street, and that Heartland had used federal funds improperly when it purchased refrigerators and microwave ovens for its local offices.

The regional office referred the complaint to the Department for investigation. At about the same time, the Department filed an "incident report" with the U.S. Department of Labor's Office of Inspector General in which it reported that Heartland might be reporting inaccurate job training participant data.

In response to these allegations, Department staff conducted a preliminary investigation. They confirmed that documents for four program participants had been altered so that certain expenses could be paid with job training moneys. Department staff also confirmed that personnel records had been lost and that Heartland Works had used federal funds to buy small appliances. Staff didn't conclude whether these purchases were appropriate, but recommended that an independent audit be conducted to examine Heartland's procurement policies and procedures. The box on page 14 provides a chronology of events involving the audits of Heartland.

An independent auditor hired by the Department found that Heartland didn't comply with its own policies and procedures for procurements, and that travel expenses lacked proper documentation. The Department hired an independent audit firm to examine Heartland's procurement policies and procedures, and to determine whether travel expenditures were reasonable and properly supported with adequate documentation. The audit covered the 18 months from July 1, 1994, through December 31, 1995, which meant expenditures from both Service Delivery Areas II and III would be reviewed.

In his report, the independent auditor said Heartland didn't sufficiently analyze its needs before making purchases, didn't always seek the best price, and had inadequate bidding procedures. The auditor also found that Heartland didn't adequately document travel expenditures, that staff may have attended too many out-of-town events, and that Heartland lacked sound business practices for authorizing trips and documenting travel expenses. In total, the auditor ultimately questioned about $375,000 in expenditures during this period, as shown in the table on the following page.

Summary of Heartland Works' Expenditures
Questioned by the Independent Auditor
For the Period July 1, 1994, through December 31, 1995

Classification	Amount
Computers and Accessories	$ 236,000
Travel	45,000
Classroom Training Tools	27,000
Professional Services	18,000
Miscellaneous Items—including Posters, Speakers	15,000
Software	13,000
Remodeling Executive Director's Office	9,000
Office Supplies	6,000
Executive Office Furniture	6,000
Total Questioned Costs:	**$375,000**

The Department Hired the Independent Auditor To Conduct a Second Audit Based on the Preliminary Results of the First One, and on Complaints Received While That Audit Was Being Conducted

During the first audit, the Department received four grievances alleging that Heartland wasn't following it's personnel policies and procedures. The engagement letter for the second audit required the auditor to review Heartland's procedures for handling payroll, merit increases, bonus payments, and employee terminations. The audit covered January 1, 1994, through May 28, 1996.

The second audit showed that the salaries of certain executives at Heartland were $15,000 to $25,000 higher than the salaries of similar staff in other service delivery areas. In addition, 18 other Heartland employees were being paid more than the pay rates approved by the board, and five were being paid less.

The audit also found that performance evaluations weren't available to document exceptional performance, and that Heartland didn't have detailed written policies or personnel committee recommendations regarding how bonus payments and merit increases should be awarded.

In all, the second audit questioned about $64,000 of Heartland's payroll expenses. The audit didn't address employee termination procedures because Department officials later decided this issue wasn't worth pursuing.

As of August 1, 1997, No Questioned Costs Remained from The Second Audit, and the Amount of Costs Disallowed by The Department from the First Audit Had Been Substantially Reduced

The Department has a specific process for resolving audit findings once the final report is issued that follows federal requirements. This process gives the audited entity an opportunity to provide the Department with additional information for any audit findings that it disagrees with, or to notify the Department that it agrees with the audit findings.

Chronology of Events for the Two Audits of Heartland Works

	The First Audit
October 1995	The U.S. Department of Labor forwarded a complaint it received from a former Heartland employee. The employee raised concerns about mishandled personnel records and improper expenditures of training funds in Service Delivery Area III. The U.S. Department of Labor asked the Department to investigate.
December 26, 1995	Department staff finish their review of Heartland. They found that program participant records had been altered, confirmed the loss of personnel records, and recommended an independent audit of Heartland's procurement policies and procedures.
February 12, 1996	The Department faxed Heartland a letter, notifying Heartland that an independent auditing firm will be conducting a "special review" of Heartland's procurement policies and procedures. According to Heartland officials, the independent auditors showed up within a couple hours.
April 17, 1996	An "exit" conference was held for the first audit. Officials from the Department and Heartland attended. Both parties obtained copies of the draft audit report, which initially identified about $420,000 in questioned costs. Heartland was given 10 days to respond to the auditor regarding the draft report.
April 17, 1996	The Department informed Heartland that it wouldn't be renewing Heartland's contract to provide Job Training Partnership Act (JTPA) services in Service Delivery Area III (Kansas City). Heartland's contract went through June 30, 1996.
April 19, 1996	The <u>Kansas City Kansan</u> published an article stating that the Department notified Heartland it wouldn't be renewing Heartland's contract to provide job training services. The article mentioned that an audit by the Department raised questions about Heartland's financial situation in Service Delivery Area III.
April 24, 1996	Kansas City area local elected officials and private industry council members met for a joint board meeting and discussed the draft audit report during an executive session. These groups voted to have the Department operate Service Delivery Area III's job training programs as of July 1.
May 23, 1996	The Department sent Heartland the final report for the first audit. Questioned costs totaled $375,000.
September 28, 1996	After reviewing volumes of paperwork submitted by Heartland, the Department lowered the first audit's questioned costs from $375,000 to $101,000.
October 24, 1996	Heartland—dissatisfied that $101,000 in questioned costs remained from the audit—filed a grievance with the Department. The appeals process began.
July 1997	After an exchange of additional information between Heartland and the Department, the questioned costs remaining from the first audit were lowered to $25,000. Negotiations are still underway.
	The Second Audit
May 24, 1996	The Department informed Heartland the independent auditor would conduct a second audit reviewing personnel policies, procedures, & compensation.
October 2, 1996	The Department provided Heartland with the final audit report for the second audit. Total questioned costs were $64,000.
April 11, 1997	After reviewing documents submitted by Heartland, the Department decided that all audit issues and questioned costs were resolved. The second audit was closed.

After both reports were issued, Heartland submitted additional documentation to the Department in an attempt to justify the costs questioned by the independent auditor. Any "questioned" costs that remain following this resolution process are "disallowed," and the auditee must reimburse them unless the U.S. Department of Labor allows a waiver.

In this instance, the resolution process has gone on for more than a year even though Department procedures call for all audit findings to be resolved within 180 days. Department officials told us they allowed the process to go on this long because Heartland continued to submit additional information, and the Department didn't want to appear heavy-handed by simply shutting off the process on some arbitrary date.

The Department reviewed the documents Heartland submitted and decided all the costs questioned in the second audit were allowable. The Department also accepted much of the additional documentation submitted for the first audit, so only about $25,000 of the expenditures are still being contested. The amounts still in question from the first audit include: almost $11,000 for professional services, about $6,000 for office furniture, about $3,000 for travel expenses, about $3,500 for tools purchased for training programs, and about $1,000 for supplies and miscellaneous items.

Department Officials Indicated the First Audit's Findings and the Department's Concerns about Heartland's Management Practices Led the Department to Not Renew Its Contract With Heartland

The Department previously had been designated by the private industry council as the administrative entity for Area III. But because it didn't think it could take on this responsibility with its existing resources, the Department had contracted with Heartland—with the private industry council's approval. The Department's contract with Heartland for Service Delivery Area III was a one-year contract that expired June 30, 1996. The Department's options for fiscal year 1997 were to renew that contract, contract with someone else to provide job training in Area III, or assume the role of grant recipient and administrative entity itself.

The Department decided to not renew its contract with Heartland to run Service Delivery Area III and informed Heartland of that fact in a letter dated April 17. That was the same day the independent auditor, Heartland, and the Department had met to discuss the preliminary findings from the first audit. Eight days earlier, the Secretary of Human Resources had notified the Governor that the Department planned to assume control of Area III when the contract expired on June 30. That notification also mentioned that the Department might wish to consider assuming responsibility for Area II (Topeka) based on the results of the audit. However to date, the Department hasn't taken specific actions to do so.

Department employees told us the questioned costs in that audit contributed significantly to the Department's decision to not renew the Area III contract. A Department letter to the Mayor of Kansas City on April 17 also stated, in part, "as a result of this audit, the Department believes it would be placing itself at significant risk if it were to renew this contract for the operation of SDA III...in the coming year."

The employee who wrote that letter subsequently told us he thought the Department's decision was based on concerns the Department was hearing from private industry council members, and on its own concerns with Heartland's management practices. As a result, it's not clear if the Department's decision would have been different if it had known in April 1996 that most of the questioned costs for the first audit would have been accepted by the Department as of August 1997.

During this audit, several people expressed concerns to us that Heartland had been treated unfairly, and that the Department may have initiated the first audit of Heartland—and used the results from that audit—as a means of taking over Service Delivery Area III. As noted earlier, however, the Department didn't initiate the first audit until it had received complaints from sources outside the Department. From what we could tell, the complaints that led to the audit were legitimate. In addition, the Department didn't need the results from the audit to not renew its contract with Heartland; it had that authority anyway.

It does seem apparent, though, that the Department wanted to get members of the local elected officials board and the private industry council to affirm its decision to not renew Heartland's contract. The private industry council and the local elected officials called a meeting on April 24, 1996, and went into executive session to discuss Heartland's situation.

In talking with council members, we learned that the council, local elected officials, and Department officials discussed findings from the draft report. Council members told us that Department staff made the equivalent of a sales pitch to operate Area III for the following year. Before the regular meeting reconvened, they said, council members decided to have the Department operate Service Delivery Area III's job training programs. The official vote was taken when the meeting reconvened.

We noted several problems related to the handling of the draft audit reports. Those problems are summarized below:

- ***First, it appears the local elected officials and private industry council may have violated the Kansas Open Meetings Act by calling an executive session to discuss matters involving Heartland.*** Department officials were allowed into that executive session meeting, but Heartland officials weren't allowed to attend. The official purpose of the executive session, as recorded in the minutes, was to discuss "personnel" matters. However, neither the Department nor Heartland are employees or personnel of the Council. Discussing which entity was going to handle job training programs in Service Delivery Area III should have been handled in an open, public meeting.

- ***Second, the Department shouldn't have been discussing a <u>draft</u> audit report with local elected officials and members of the private industry council.*** We don't know if these officials actually received a draft audit report at the April 24th meeting, but it's clear the findings were discussed. At that point, the audit report was still a draft, and Heartland hadn't yet had a chance to respond to the independent auditor's findings. Although the amount of questioned costs dropped from about $420,000 in the draft to $375,000 in the final report, it was possible those questioned costs might have dropped much more depending on the documentation Heartland provided.

- ***Third, the Department's procedures don't address some important issues regarding who can review draft audit reports and when they become public, which may have contributed to at least one other inappropriate release of the draft audit report.*** In that situation, a private industry council member received an unsolicited copy of the draft audit report before the April 24th meeting. According to the member, the draft report came from the Department, but there was no transmittal letter identifying who had sent it. In another situation, the <u>Kansas City Kansan</u> published a story on April 19th about the Department's decision not to renew its contract with Heartland. The article mentioned that an audit by the Department had raised questions about Heartland's financial situation in Service Area III. Based on the level of detail in the article, it didn't appear the reporter had obtained a copy of the draft report, but he apparently had received information relating to its findings.

Conclusion

Officials at Heartland Works and others have raised concerns about how fairly the Department treated Heartland in its recent audits and in its decision not to renew Heartland's contract in Service Delivery Area III (Kansas City). We saw nothing during this audit to suggest that the Department had an "ulterior" motive in ordering two different audits of Heartland. Those audits confirmed outside complaints about some of Heartlands practices. It was clear from our reviews and interviews however, that relations between Heartland, the Department and the local boards had deteriorated over time. It also was clear that after the first audit of Heartland the Department used that information to gather support among local officials in Kansas City to drop Heartland's services and have the Department provide them.

Whatever the reason for its actions, the Department acted well within its authority in deciding not to renew its contract with Heartland for fiscal year 1997. As described in our report, the only problems we could document in this area related to the Department's lack of procedures for handling draft audit reports, and its discussion of the findings from the first draft report during an apparently illegal executive session called by members of the private industry council and local elected officials board. By taking decisive actions to address these problems, the Department can help minimize the risk of similar problems and charges of unfair treatment in the future.

Recommendations

1. To ensure that information contained in preliminary drafts of audit reports is used appropriately, the Department of Human Resources should amend its procedures for handling audit reports to specify such things as which employees can receive and review preliminary drafts, the circumstances under which preliminary audit findings should be shared with persons outside the Department, and when the findings in an audit report should be made available to the public.

2. To help ensure that its staff and others who are connected with the Job Training Partnership Act are in compliance with the Kansas Open Meetings Act, the Department should:

    a. Inform key program management staff about the provisions of the Kansas Open Meetings Act and instruct them not to take part in meetings that would violate it.

    b. advise private industry councils and local elected officials about the Open Meetings Act's requirements and the subjects that may be discussed during executive sessions.

Are Current Administrative Costs for Programs Funded with Wagner-Peyser Moneys Excessive Compared with Administrative Costs in Past Years or in Other States?

Federal moneys the Department receives under the Wagner Peyser Act are used to help match workers with job vacancies. In fiscal year 1997, almost one-third of the Department's Wagner-Peyser funds were used for administrative and support services expenses. This is the highest percentage spent on those areas in the last four years. Because the federal government hasn't adopted parameters for how states can spend Wagner-Peyser funds, we can't say whether this amount is excessive. Compared to three other states we contacted, however, the percent of Wagner-Peyser money Kansas spent on administration or other non-field operations didn't appear to be out-of-line. These and related findings will be discussed in more detail after a brief discussion of the Wagner-Peyser Act and the funding it provides.

Federal Moneys the Department Receives Under the Wagner Peyser Act Are Used To Match Workers With Job Vacancies

States receive Wagner-Peyser moneys each year to help people find jobs and to provide employers with information about local labor markets. In Kansas, Wagner-Peyser funds help pay for the State's Job Service Program, which is administered by the Department of Human Resources. It currently operates 23 job service centers across the State, as shown in the map on page 3 of this report.

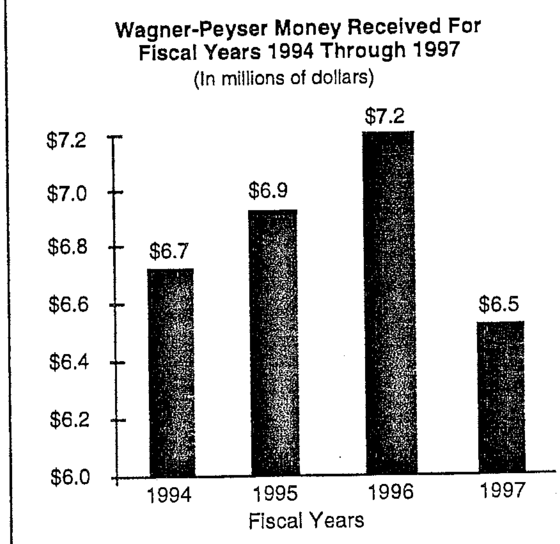
State and federal officials told us the Wagner-Peyser program is very labor- and computer-intensive. Department employees in the local job service centers help counsel job-seekers, enter job vacancies and job-seeker information into the computer, run searches on the computer, provide informational workshops for employers, and the like. In the central offices, employees help research labor market statistics, maintain computer systems, and create the Wagner-Peyser plans and reports required by the federal government.

In 1995, the Department Learned That Its Future Wagner-Peyser Funding Would Be Cut Significantly

The Department found out that its Wagner-Peyser funding for fiscal year 1996 would be about $600,000 less than expected, and that funding for fiscal year 1997 would be about $700,000 less. These funds were being cut because the national allocation formula was changed to benefit the more densely populated states.

The reductions represented about a 9% cut in funding for the Department's Job Service Program. The chart at the top of the next page shows the amount of Wagner-Peyser moneys the Department actually received over the past four fiscal years.

Although the Department received more in fiscal year 1996 than in did in 1995, it had anticipated receiving nearly $8 million, not the $7.2 million it got.



In response to cuts in its Wagner-Peyser funding, the Department decided to close eight field offices and eliminate 37 full-time-equivalent positions. Department officials told us they considered several options, including the following:

- closing field offices
- eliminating non-critical Wagner-Peyser temporary positions
- not filling vacant Wagner-Peyser positions
- reducing or eliminating travel, per diem and equipment expenses
- switching Wagner-Peyser staff to other grants

Ultimately, the Department decided to close eight of its 31 local job service centers and eliminate 34 full-time-equivalent positions from the local centers. (Only 17 of those positions were from the job service centers that were closed.) The posi-

The Department Eliminated 37 Positions in Response to Cuts in Federal Funding

In 1995, Department officials learned their Wagner-Peyser funding for fiscal year 1996 would be about $600,000 less than expected, and about $700,000 less for fiscal year 1997. This occurred because the national allocation formula was changed to benefit the more densely populated states.

In response to the funding loss, the Department considered several options including closing field offices, eliminating non-critical Wagner-Peyser temporary positions, not filling vacant Wagner-Peyser positions, reducing or eliminating travel, per diem and equipment expenses, or switching Wagner-Peyser staff to other grants. Ultimately, the Department decided to close eight field offices and eliminate 37 full-time equivalent positions. These actions were completed by March 1996. A Department official told us the Department chose to eliminate positions because the other options wouldn't have saved enough money to correct the problems, and the Department was concerned that other grants might soon be reduced as well.

To determine where to reduce operations, the Department used a formula that took into account each service delivery area's number and type of employers, civilian labor force, projected population for the year 2000, and economically disadvantaged population. In addition, the Department decided that to justify spending Wagner-Peyser funds for a local office, all of the following criteria should be met:

- sufficient Wagner-Peyser funding must be available to support two full-time professional level positions
- the local office should have at least one full-time paraprofessional position, funded by any combination of sources
- there should be only one local office in a county

By applying the criteria that there should be only one local office in a county, the Department closed two offices—one in Johnson County and one in Sedgwick County—and combined them with two other offices in the same counties. These consolidations didn't eliminate any positions.

By applying the criteria that sufficient Wagner-Peyser funding must be available to support two full-time professional level positions, the Department closed the offices in Goodland, Junction City, McPherson, Ottawa, Parsons, and Wellington. Closing these offices eliminated 17 full-time equivalent positions.

In addition, 17 full-time equivalent positions were eliminated from the remaining 23 field offices and three positions were eliminated from support service offices.

tions eliminated were a mix of full and part-time. The Department also eliminated three full-time-equivalent positions in its central office. (The profile box on the previous page provides more information about these staff reductions and field office closings.)

A Department official told us the Department chose to eliminate positions because the other options wouldn't have saved enough money to make up for the funding shortfall, and the Department was concerned other grants soon might be reduced as well. According to Department officials, by eliminating these positions the Department expected to save approximately $750,000 in fiscal year 1997.

Department officials told us they've established approximately six satellite offices across the state which are supposed to mitigate the effects of closing the eight field offices. The number and office locations open at any one time varies throughout the year. The satellite offices have limited hours, but enable the Job Service program to have a presence in communities not served by regular job service centers. In addition, the Department has placed work stations in about 40 libraries where people can obtain computer access to on-line information such as job listings.

Between fiscal years 1995 and 1997, total positions funded with Wagner-Peyser moneys dropped by more than 22%, the majority of which came from the Job Service field offices. The eight field offices were closed and staffing reductions were completed by March 1996, or about three-fourths of the way through fiscal year 1996. The table below shows the number of positions funded with Wagner-Peyser moneys over the past four fiscal years. It also shows the percent change between fiscal year 1995 (before any positions had been eliminated) and fiscal year 1997 (after all position cuts had been made).

FTE Positions Funded With Wagner-Peyser Moneys (a)
Fiscal Years 1994 Through 1997

	FY 94	FY 95	FY 96	FY 97	% Change 95-97
Administrative FTEs (all administrative positions assigned to the Dept's central office)	9.0	9.6	11.1	9.3	-3.1%
Support Service FTEs (all support positions assigned to the central office for personnel, accounting, payroll, legal, maintenance, etc.)	22.6	22.5	23.7	20.3	-9.8%
Subtotal: Non-field FTEs	31.6	32.1	34.8	29.6	-7.8%
Field Office FTEs (all positions assigned to the local job service centers)	131.8	136.1	128.3	100.8	-25.9%
Total FTEs	163.4	168.2	163.1	130.4	-22.5%

(a) This information was developed by taking the total number of hours charged to Wagner-Peyser for each group, and dividing it by 2,080—the average number of hours a full-time employee works in a year.

As the table shows, the total number of "non-field" operations positions dropped by nearly 8% between fiscal years 1995 and 1997. Most of those cuts occurred in support services. During that same period, positions assigned to the field offices dropped by nearly 26%.

The Wagner-Peyser Act Doesn't Define Administrative Costs Or Limit the Amount that Can Be Spent for Administration

Initially we'd hoped to be able to compare the Job Service Program's administrative expenditures with percentage limits set out under the Wagner-Peyser Act. Unlike many other federal laws, however, that Act doesn't define administrative costs or limit the amount that can be spent for administration. A federal official told us that guidelines had been discussed but never finalized.

We also couldn't use percentage limits established for other federal grants the State receives because of different definitions spelled out in those grants for administrative costs and the types of activities that could be funded. As a result, we were limited in this question to comparing the Program's administrative costs with similar costs in past years and in other states.

Definitions of Field Operations, Administrative, And Support Services Expenditures

For this audit, we defined the categories of expenditures as follows:

- *Field operations* expenditures include the expenses incurred for operating the Department's 23 local offices. These offices are shown in the map on page 3 of this report. Personnel expenses are the primary cost of this category. Much smaller amounts are charged for items like rent and utilities.
- *Administration* expenditures include the personnel expenses for administrative employees working out of the Department's central offices. These employees charge varying portions of their time to Wagner-Peyser and include the Director of Employment and Training, employees of the Administrative and Technical Support Division, employees of the Customer Services and Systems Division, and the like. Much smaller amounts are charged for items like rent and utilities.
- *Support Services* expenditures include the personnel costs for employees doing activities like labor market information research, data processing, personnel, accounting, maintenance, communications, and legal, as well as other costs for rent, utilities, supplies, and the like. The operating expenses for these activities are grouped into a "holding" account, and the Department spreads the costs of these services against all of its funding sources. To accomplish this, the Department uses a formula that has been approved by outside auditors, and is based on the number of hours that administrative and field operations' employees charge against various funding sources.

  The reason these support services costs are allocated and not charged directly against funding sources is that it would be too difficult for these staff to charge their time properly. For example, accounting staff couldn't be expected to differentiate between the time they spend on matters involving one funding source versus another.

In Fiscal Year 1997, a Greater Percentage of Wagner-Peyser Funds Were Spent on Administrative or "Non-Field" Operations than in Previous Years

Because the Wagner-Peyser Act provides no guidance about the types of expenditures that should be classified as "administrative," we developed our own. We divided expenditures into two categories—"non-field" operations, which include administration and support services, and "field operations," which essentially are the job service centers located throughout the State. The box on page 22 describes the types of expenses included in each category.

The following table shows the amount of Wagner-Peyser funds the Department spent during each of the last four fiscal years. It also shows the percent change between fiscal year 1995 (before any positions had been eliminated) and fiscal year 1997 (after all position cuts had been made).

Wagner-Peyser Expenditures (a)
Fiscal Years 1994 to 1997
(in thousands)

	FY 94	%	FY 95	%	FY 96	%	FY 97	%	%change FY 95-97
Administration (b)	$723	10.6	$636	9.1	$644	8.9	$669	11.2	+5.1
Support Services	$1,278	18.8	$1,342	19.1	$1,532	21.2	$1,271	21.2	-5.2
Sub-total-non-field	$2,001	29.4	$1,978	28.2	$2,176	30.1	$1,940	32.4	-1.9
Field Office Operations	$4,800	70.6	$5,045	71.8	$5,065	69.9	$4,046	67.6	-19.8
Total	$6,801	100.0	$7,023	100.0	$7,241	100.0	$5,986	100.0	-14.8

(a) Because the federal government allows previously unspent funds to be carried forward for two fiscal years, in some years the Department spent more than its annual federal allocation.

(b) Salary costs for the five area supervisors are included in administration because the Department's accounting records had included them in this category until early fiscal year 1997. The impact of including them with administration rather than field office operations is relatively small. For example, if these salaries were classed as field office costs, in the most recent year shown, they would have increased field operations expenditures by about 2% and decreased the non-field expenditures by a like amount.

As the table shows, in fiscal year 1997 total non-field operations accounted for about one-third of all program expenditures, or a greater proportion than in any of the three previous years. Total field office operations accounted for about two-thirds of expenditures in fiscal year 1997. This is a smaller proportion than in any of the three previous years. Stated another way, non-field operations now account for 4.2% more of total Program costs than they did in fiscal year 1995, while field office operations now account for 4.2% less.

The last column on the table also shows that, between fiscal years 1995 and 1997, expenditures for field office operations dropped by nearly 20%, from about $5 million to about $4 million. This reduction is primarily the result of eliminating 34 field positions and closing eight local field offices. Expenditures for non-field operations declined by about 2%, all of which occurred in the support services category—things like computer services and accounting. Administrative expenditures increased by about 5% between 1995 and 1997.

Department officials told us that eliminating field positions and closing field offices wouldn't necessarily result in an equal reduction in administrative expenses, because some administrative employees' workloads (and thus the time they charge to the Job Service Program) wouldn't be affected significantly. For example, they noted that activities such as preparing an annual plan or providing information about the program to potential users would need to be carried out no matter how many field offices were open.

On the other hand, those officials indicated that expenditures for support services would be reduced because support service costs assigned to individual programs are tied to the total number of staff hours charged to each program. Because there were fewer job service field staff in fiscal year 1997, fewer total hours were charged to the Job Service Program.

Department Officials Say One-Stop Career Centers May Provide Some Operating Efficiencies in the Future

The federal government is pushing for the development of what is referred to as "One-Stop Career Centers." Their purpose is to have employment, education, and training services available to clients at a single site. People who may be eligible to receive assistance through the Job Service program, the Job Training Partnership Act program, or other programs provided by the Department of Social and Rehabilitation Services can obtain assistance at a single location.

Department officials said that when these centers are opened, the Department may be able to make better use of its Wagner-Peyser funds and provide more services than are currently being offered. The Department hopes to begin opening One-Stop Career Centers in the later part of 1998.

Although it's difficult to say from these data whether current administrative costs are "excessive" compared with administrative costs in previous years, it's clear that they are greater than in past years. In addition, in this audit we had hoped to review records for Department cost centers to identify specific areas where costs had increased. However, the Department didn't have records in this format for years before fiscal year 1997.

We didn't see any indication that excessive amounts of administrative salaries were being charged against Wagner-Peyser funding in fiscal year 1997. Salary costs accounted for about 83% of the administrative costs charged to Wagner-Peyser that year. We reviewed the amount of time individuals in the administrative category charged to Wagner-Peyser during the first 11 months of fiscal year 1997 to determine whether those charges appeared to be reasonable.

In all, 39 administrative employees charged some portion of their time against the Wagner-Peyser grant. The amounts ranged from less than one percent to 90% of total hours worked. In all, 31 employees charged less than 40% of their time to the grant; 8 charged more.

We reviewed the general job duties for the eight employees who charged more than 40% of their time to the grant to see if the amount of time they charged appeared to be reasonable, and found that it was. For example, four employees are service delivery area supervisors who likely would spend a significant amount of their time on Wagner-Peyser activities. In another case, it seemed reasonable that the Department would have a computer specialist spending a significant portion of his time on the Job Service Program, which is heavily dependent on computers.

Compared to Other States We Contacted, Kansas' Administrative Costs for Wagner-Peyser Programs Didn't Appear To Be Excessive

We contacted officials in Nebraska, Missouri, Iowa, Minnesota, and Oregon to find out how these states spent their Wagner-Peyser funds. Because the federal government doesn't require administrative costs to be reported on a consistent basis, we found that other states didn't maintain their expenditure information in a way that would allow us to compare only their administrative costs.

To provide as much consistency as we could, we had other states tell us how much of their Wagner-Peyser money was spent on non-field operations and how much was spent on field office operations. Only three states provided this information, as shown in the table below.

Comparison of Uses of Wagner-Peyser Funds For Fiscal Year 1997

State	Non-field Expenditures	Field Office Expenditures
Minnesota	34%	66%
Oregon	32%	68%
Kansas	**30%**	**70%**
Iowa	24%	76%
3-state average (without Kansas)	30%	70%

The table shows that Kansas' spending isn't out-of-line with these other states. Minnesota spent the highest percentage of its program funds on non-field operations, and Iowa spent the lowest percentage. Kansas' non-field expenditures were the second lowest, and equal to the three-state average.

Conclusion

Good comparisons aren't available to determine whether Kansas spends too much on administrative costs. Because the Wagner-Peyser Act doesn't define or limit administrative costs, neither the Department nor similar agencies in other states account for administrative costs the same way.

Concerns had been expressed that the Department was cutting back on field staff while spending the same or more on administrative costs. That's essentially true. However, compared with several other states that gave us information, we can't conclude the portion of the Department's Wagner-Peyser money that's spent on "non-field" costs is out-of-line.

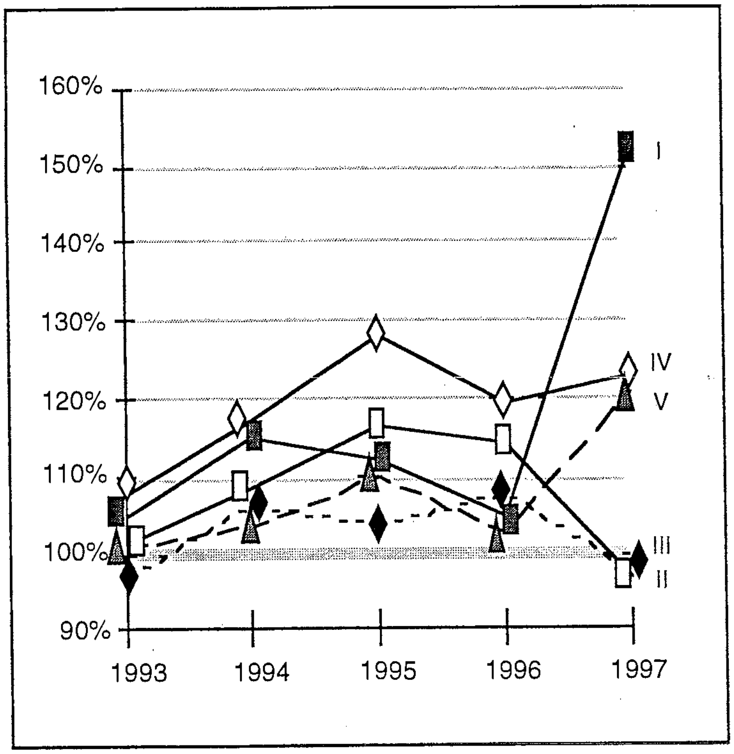
Because the national allocation formula was changed to benefit the more densely populated states, it's likely Kansas won't receive substantial increases in its Wagner-Peyser funding in the near future. The Department will need to closely watch the amount it spends on administration and support services, because as field operations receive proportionately less funding, it becomes more difficult to provide the same level of services.

APPENDIX A

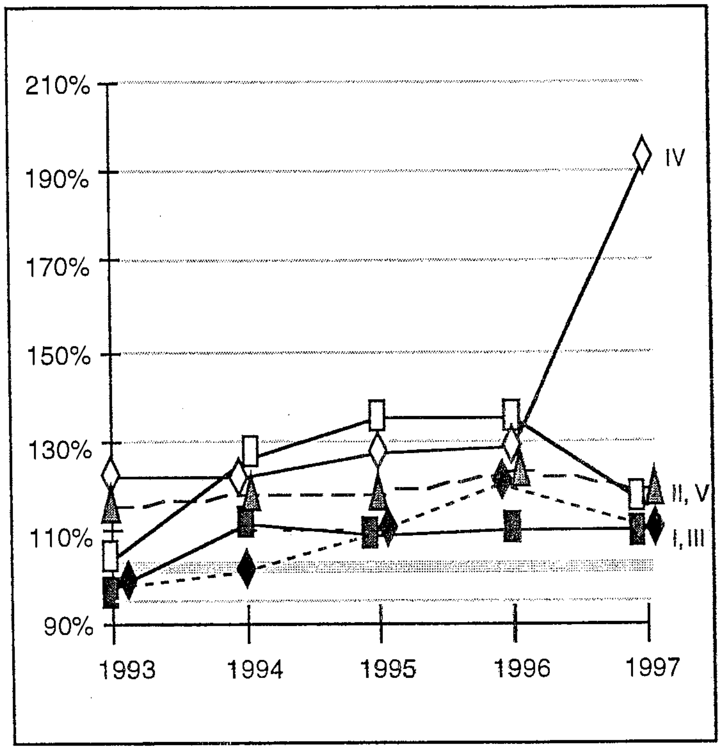
Annual Average Performance of Service Delivery Areas for Five Years For the Seven Core Performance Standards

The federal government has established seven core performance measures for job training programs funded by the Job Training Partnership Act. We analyzed the extent to which each of the five service delivery areas met or exceeded their target standards for each performance measure during the past five years. The comparisons for each performance measure are shown in the following series of line graphs.

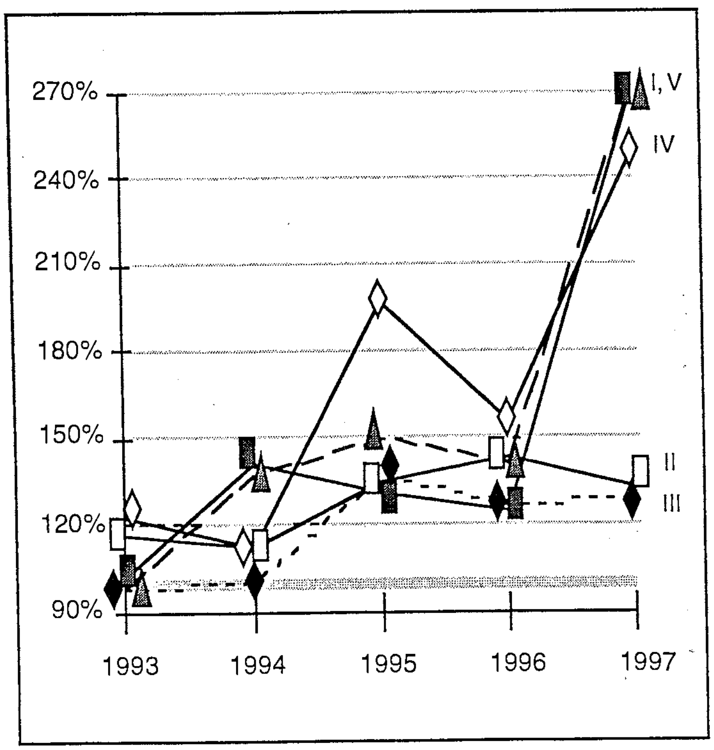
Annual Average Performance of Service Delivery Areas for Five Years For Each of the Performance Standards



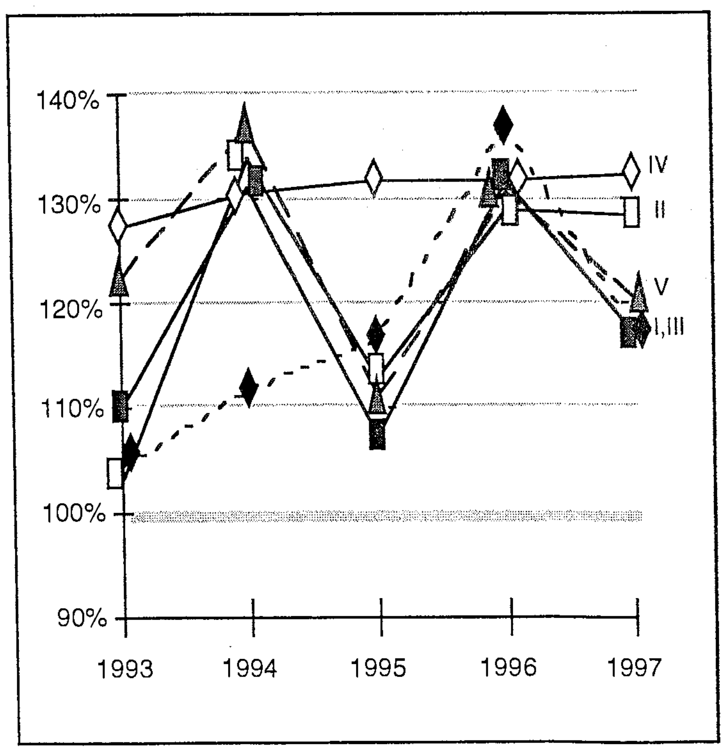
Performance Standard #1
Adult Employment Rate At Follow-Up



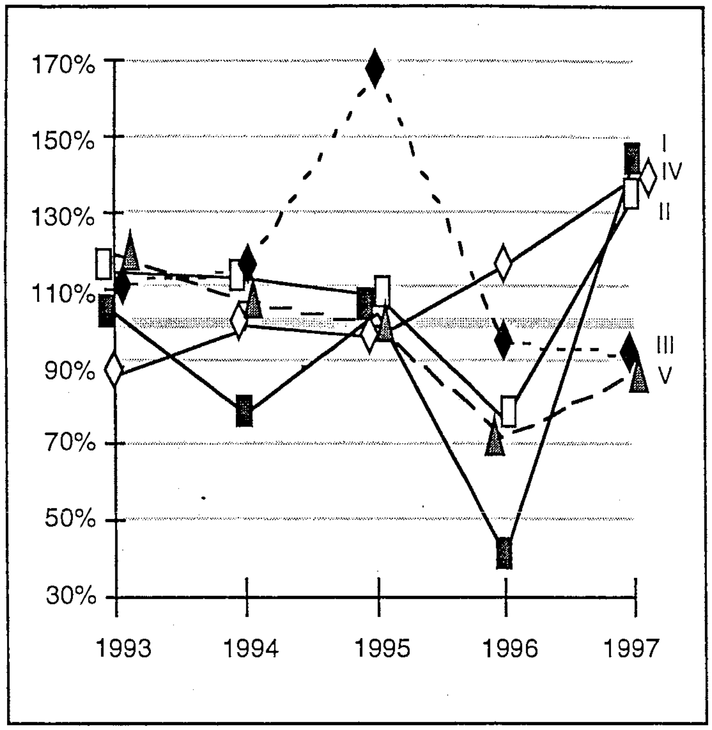
Performance Standard #3
Welfare Adult Employment Rate At Follow-Up



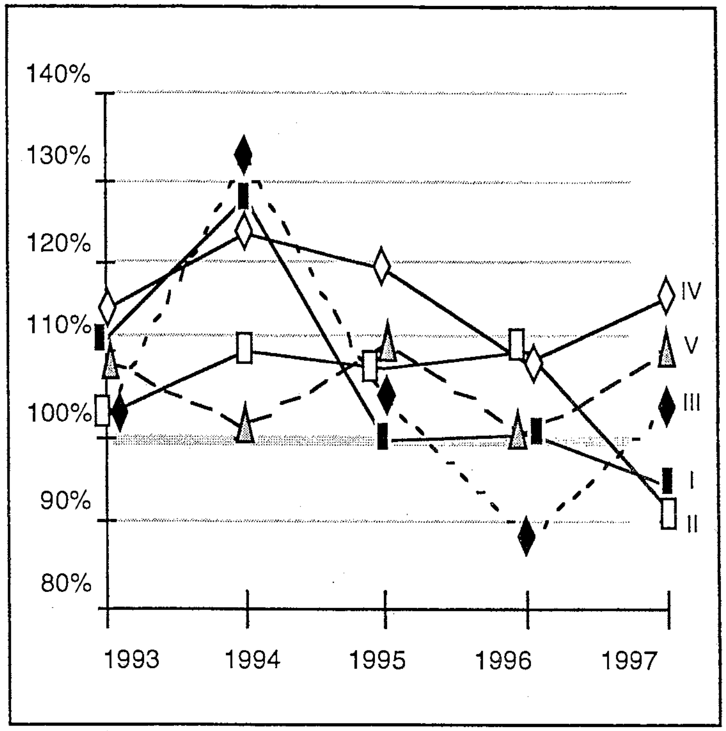
Performance Standard #2
Adult Weekly Earnings At Follow-Up



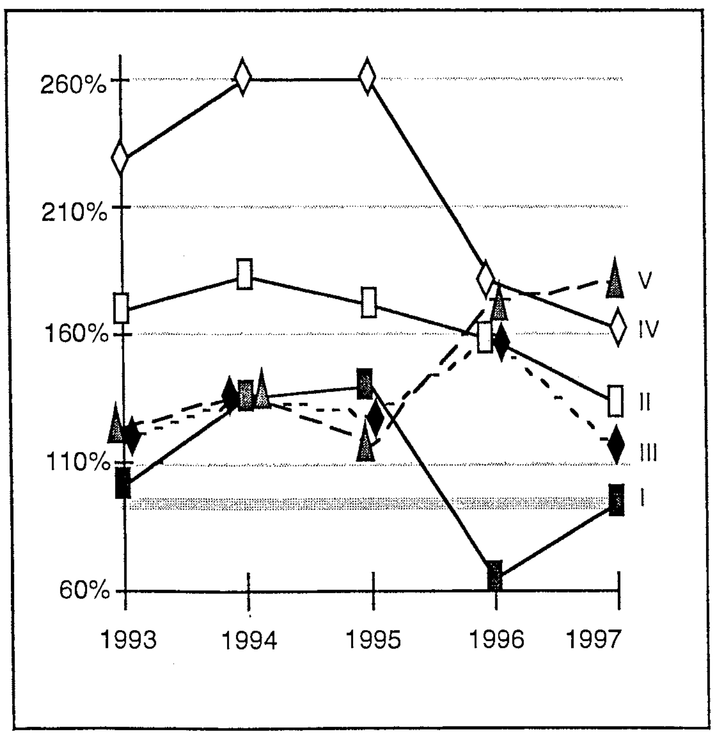
Performance Standard #4
Welfare Adult Weekly Earnings At Follow-Up



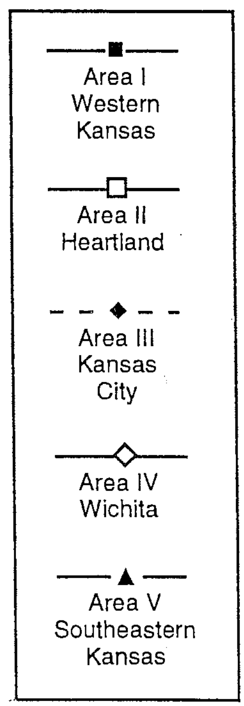
Performance Standard #5
Youth Entered Employment Rate



Performance Standard #7
Entered Employment Rate



Performance Standard #6
Youth Employability Enhancement Rate



APPENDIX B

Agency Response

On October 3, 1997, we provided copies of the draft audit report to the Department of Human Resources. We also provided relevant portions of the draft to Heartland Works. The Department's response is included in this Appendix. Heartland Works didn't provide a written response to the report.

STATE OF KANSAS
DEPARTMENT OF HUMAN RESOURCES

Bill Graves, Governor

Wayne L. Franklin, Secretary

OFFICE OF THE SECRETARY
401 S.W. Topeka Boulevard, Topeka, Kansas 66603-3182
PHONE....... (785) 296-7474
FAX .... (785) 368-6294

October 31, 1997

Ms. Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
Mercantile Bank Tower
800 Southwest Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

RE: Review of Performance Audit: *Reviewing the Use of Job Service Moneys In Several Service Delivery Areas in Kansas*

Dear Ms. Hinton:

This office is in receipt of and I have reviewed the performance audit entitled *Reviewing the Use of Job Service Moneys In Several Service Delivery Areas in Kansas.* I appreciate your invitation to respond. As Secretary of Human Resources, I enthusiastically support the concept of continuous improvement and welcome critiques regarding the performance of the Agency, including recommendations to enhance the quality of services we provide to our customers.

While I am in general agreement with the recommendations presented in the audit, I would offer the following brief clarifications:

- Recommendation - Question 1
  Department verification of the accuracy of reported data is an activity that in past years required up to 3.0 FTE in our Labor Market Information Services (LMIS) unit, which, due to funding cuts, were abolished. Under the current director of Employment and Training, "oversight and monitoring" activities are a top priority. Not only have we made changes in staff duties to permit increased *on-site* review activities, we have also begun *manual comparisons* of wage information with information about JTPA terminations. In addition, staff are actively exploring alternative methods for verifications, via our computer systems, working with and through our Information Systems unit and LMIS unit.

- Recommendation - Question 2
  With respect to recommendation 2.b, regarding the Department advising private industry councils (PIC) and local elected officials about the Open Meetings Act's requirements, we are amenable to distributing general information about the provisions of the Open Meetings Act to staff and PIC council chairs. As to providing specific legal advice concerning the Act, however, PICs will be advised to contact their own respective legal counsels.

Overall, I am pleased with the results of the audit. While I believe it is clear that we at the Department of Human Resources are performing in a noteworthy manner concerning administration of federally funded programs and audit and contract authority, we always welcome the opportunity to improve upon our existing methods and procedures.

On behalf of the Agency, please be assured that we appreciate the tireless work of your audit team and take your recommendations seriously. If you have any questions, please do not hesitate to give me a call at (785) 296-7474.

Sincerely,

Wayne L. Franklin

Wayne L. Franklin
Secretary of Human Resources

WLF:JMC:jc

cc: Jill M. Crumpacker, Director of Employment and Training
A.J. Kotich, Chief Legal Counsel