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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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HUMAN RESOURCES DIVISION

IN REPLY REFER TO:

B-163922

June 7, 1978

The Honorable Mary Rose Oakar
House of Representatives

Dear Ms. Oakar:

By letter dated November 17, 1977, and subsequent meetings, you asked that we review how Federal Comprehensive Employment and Training Act (CETA) funds given to the Cleveland Area Western Reserve Manpower Consortium are being managed and controlled. Specifically, you asked that we focus our efforts on titles I, II, and VI of the act and determine how the Consortium:

--Compares nationally in terms of placing participants in jobs and in terms of administrative costs.

--Manages and controls administrative costs.

--Evaluates and selects delivery agents for title I employment and training programs.

The CETA program provides funds for employment and training of unemployed, underemployed, and economically disadvantaged persons. Title I of the act (29 U.S.C. 801) authorizes comprehensive employment and training activities, such as on-the-job and classroom training. Titles II and VI primarily authorize transitional public service employment. The Department of Labor is responsible for administering the CETA program.

HRD-78-126
(20596)

We made our review at the Consortium's central administration office which is staffed and managed by the City of Cleveland as the Consortium's designated agent for program operations and administration. We examined records and reports and other data maintained by the central administration office and obtained national data on program activities. We also held discussions with Consortium officials and with the representative of Labor's regional office responsible for the Department's monitoring and assessments of the Consortium's performance.

As agreed with you, our review did not include a detailed review and evaluation of individual projects or programs sponsored by the Consortium. Also, we did not attempt to verify the accuracy of the Consortium's reported data.

Our findings are summarized below and are presented in more detail in the enclosure.

We found that in fiscal years 1975 through 1977 the Consortium's success in obtaining unsubsidized employment for title I program participants was generally comparable to national averages. However, for the same years titles II and VI performance was substantially below national averages. Consortium officials attributed the low placement rates for titles II and VI to financial problems faced by the City of Cleveland and to depressed business conditions in the area.

Consortium administrative costs reported to Labor were above the limits specified by Labor regulations for title I in fiscal years 1975 and 1976, but were within limits specified by the act for titles II and VI for fiscal years 1975 through 1977. The Consortium's reported rates were above the reported national averages for all three titles in fiscal year 1977. The Consortium is taking steps to reduce its administrative costs.

Labor found that the Consortium funded title I service delivery agents in fiscal years 1975 and 1976 without evaluating their efficiency or success in placing participants in unsubsidized employment. At Labor's direction the Consortium instituted a competitive selection process for fiscal year 1977 in which proposals were evaluated on quantitative and qualitative factors. As a result, 20 of the 57 proposals were accepted, including 5 from delivery agents not previously funded. Two previously funded agencies' proposals were rejected.

Labor has identified other problems with the Consortium's management of its programs including an unreliable management information system, inadequate procedures for determining participant eligibility, and inadequate controls over program expenditures. Labor is working with the Consortium to correct these problems.

Most of the corrective actions to the problems outlined above are still in the planning stage or initial stage of implementation. Consequently, it appears that it will take considerable time and effort before these actions are fully implemented and can be fully evaluated. Labor plans to continue its close monitoring of the Consortium's activities and provide assistance to the Consortium in identifying and resolving management problems. In view of the efforts being made by Labor and the Consortium to improve the program's overall management and controls, we are not making any recommendations at this time.

As agreed with you, we did not obtain written agency comments on this report. We did, however, discuss the information in this report with regional Labor and Consortium officials and considered their comments in preparing our report. As agreed with you, in 2 working days we will make copies of this report available to others who may be interested in it.

Sincerely yours,

Gregory J. Ahart
Director

Enclosure

STATUS OF IMPROVING CLEVELAND'S MANAGEMENT OF ITS EMPLOYMENT AND TRAINING PROGRAMS

INTRODUCTION

The Comprehensive Employment and Training Act of 1973, as amended (CETA), authorizes Federal grants to State and local governments for employment and training programs and other employment services. CETA's purpose is to increase employment opportunities and enhance individual self-sufficiency for economically disadvantaged, unemployed, and underemployed persons. The Department of Labor administers CETA programs on a decentralized basis through its regional offices.

Title I of the act authorizes grants to State and local governments and combinations of governments (prime sponsors) for the design and operation of comprehensive employment and training programs. Services authorized include institutional and on-the-job training, work experience, vocational education and counseling, remedial education, job placement services, and transitional public service employment. Titles II and VI of the act authorize grants to prime sponsors primarily for transitional public service employment.

At the request of Congresswoman Mary Rose Oakar, we developed information on the Cleveland, Ohio, area CETA prime sponsor--the Cleveland Area Western Reserve Manpower Consortium. Specificially, we gathered information on (1) the proportion of participants who terminated from the program and entered unsubsidized employment, (2) the Consortium's administrative costs, (3) how the Consortium evaluates and selects employment and training proposals for service delivery, and (4) management problems identified by the Department of Labor. We also obtained national data on program activities, where appropriate. As agreed with Congresswoman Oakar, we did not test the validity of the reported placement and administrative cost data.

DESCRIPTION OF THE CLEVELAND CETA PRIME SPONSOR

The Cleveland Area Western Reserve Manpower Consortium was established on March 29, 1974, as an eligible prime sponsor under the act. The membership was comprised of the cities of Cleveland and Parma, and the counties of Cuyahoga, Geauga and Lake. (Lake County withdrew from the Consortium in 1977.) The City of Cleveland was designated as the program operator and administrative agent for the Consortium and the mayor has delegated administrative responsibilities to the city's Department of Human Resources and Economic Development.

Through fiscal year 1977, the Consortium received over $145 million for CETA titles I, II, and VI programs:

Fiscal year	Title I	Title II	Title VI	Total
1974	$ 1,299,147	$ 3,321,148	$ a/	$ 4,620,295
1975	15,580,994	3,542,928	17,985,989	37,109,911
b/ 1976	19,540,353	10,915,741	c/ 288,706	30,744,800
1977	14,438,125	11,428,812	d/ 46,988,743	72,855,680
	$50,858,619	$29,208,629	$65,263,438	$145,330,686

a/Title VI was enacted in fiscal year 1975.

b/Includes transition quarter.

c/Funds were not appropriated for title VI in 1976. The $288,706 was a transfer of funds from title II to sustain the title VI program.

d/The large increase in 1977 was due to the passage of the Administration's economic stimulus program to alleviate unemployment (Economic Stimulus Appropriation, 1977, Public Law 95-29, approved May 13, 1977). The grant was for an 18-month period with a major portion of the funds to be used in fiscal year 1978.

hrough fiscal year 1978, funds were awarded by the Consortium to 27 private or public agencies and 5 political jurisdictions to operate title I programs. In addition, 12 programs were operated by the Consortium. Prior to fiscal year 1978, the title II and title VI funds were awarded only to political jurisdictions. In fiscal year 1978 the Consortium for the first time awarded about $6 million in title VI funds to 177 private nonprofit organizations.

Labor's Chicago regional office is responsible for monitoring and evaluating prime sponsor performance. This includes providing technical assistance to the prime sponsor in planning and operations and approving prime sponsor operating plans.

PLACING PARTICIPANTS IN UNSUBSIDIZED EMPLOYMENT NEEDS IMPROVEMENT

CETA's primary objective is to provide employment and training activities that will help the participant to find unsubsidized employment. Neither CETA nor Labor have specified placement goals or placement requirements for the prime sponsors. As shown below, data on the placement of participants by the Consortium in unsubsidized employment as a percentage of total terminations was below the national averages for each title in fiscal year 1975. In fiscal years 1976 and 1977, the Consortium surpassed the national averages for title I, but not for titles II and VI.

Unsubsidized Employment Placement Rates

	Title I			Title II			Title VI		
	1975	1976	1977	1975	1976	1977	1975	1976	1977
		percent			percent			percent	
Consortium	20	31	42	4	13	1	19	19	3
National	32	30	39	23	23	18	29	20	34

Consortium officials attributed the low placement rates for titles II and VI programs to financial problems faced by the cities in northeastern Ohio--especially by Cleveland--and to depressed business conditions in the Cleveland area. They told us that fiscal year 1978 funding of title VI programs operated by private nonprofit organizations should help to increase the percentage of program participants obtaining unsubsidized employment.

As requested by Congresswoman Oakar, we attempted to obtain placement data by service delivery agent, however, the Consortium's information system could not provide this data. (The Consortium's management information system is discussed later.) Before August 1977, when the Consortium implemented its automated information system, delivery agent performance data was compiled manually. We could not reconstruct the data from the Consortium's records without substantial additional effort.

EFFORTS TO REDUCE CONSORTIUM ADMINISTRATIVE COSTS

CETA regulations limit administrative costs for title I to 20 percent of total title I costs, unless a justification for exceeding this limit is provided in the grant application. CETA limited administrative costs for titles II and VI to 10 percent in fiscal years 1975 and 1976. For fiscal year 1977, CETA was amended (Public Law 94-444) to increase the limit for these two titles to 15 percent. As shown below, Consortium data shows administrative costs were over the limits in 1975 and 1976 for title I, but were within the limits for titles II and VI for fiscal years 1975-77.

Consortium Administrative Cost Rates

Fiscal year	Title I percent	Title II percent	Title VI percent
1975	25	7	5
1976	26	4	7
1977	19	12	9

Comparing the Consortium's reported 1977 administrative rates to the reported national averages shows the Consortium's costs were generally in excess of the national averages for each title. The national averages were 17 percent for title I and 5 percent for titles II and VI.

Labor allowed the Consortium to exceed the 20 percent limit for title I administrative costs in fiscal years 1975 and 1976 but directed the Consortium to adhere to the 20 percent limit in fiscal year 1977. As shown above, the Consortium reduced its title I program administrative costs from 26 percent in fiscal year 1976 to 19 percent in fiscal year 1977. In part, the lower rate was due to increases in program funds for title VI which resulted in this program absorbing more of the Consortium's administrative costs.

The downward movement in title I administrative costs is continuing. For the first quarter of fiscal year 1978, the reported title I administrative cost rate was 14 percent. This lower rate was achieved by the Consortium requiring delivery agents to limit their proposed administrative costs to 10 percent in order to obtain fiscal year 1978 funding. However, exceptions were granted in some cases. For example, the Consortium did not require the Skills Available program to adhere to the 10 percent rate because its administrative costs would be under the allowable rate if the value of its voluntary work force was included in program costs. The combined rate for all delivery agents was 11 percent, including six who were allowed rates in excess of 20 percent. The Consortium central administration costs brought the reported total for the quarter to 14 percent.

The Consortium is trying to further reduce its central administrative cost. The administrative staff was reduced in size during the second quarter of fiscal year 1978 and the executive secretary of Cleveland's Department of Human Resources and Economic Development told us he is striving for a 10 percent administrative cost rate.

As requested by Congresswoman Oakar, we obtained administrative cost rates by service delivery agents. However, these costs are generally not comparable. For example, the Skills Available program under title I has about 200 part-time workers who provide volunteer services directly to participants. If these volunteers received salaries and fringe benefits, which would be included as program costs, this would lower the reported administrative cost rate since the base on which the administrative rate is calculated would be increased. Also, many service delivery agents did not break out reported costs to show administrative and program costs separately. Since a listing of service delivery agents' administrative costs would not allow valid comparisons without extensive qualification and analysis, we are not including a listing in this report.

CHANGES IN THE WAY THE CONSORTIUM SELECTS DELIVERY AGENTS

CETA requires that title I delivery agents will be selected by the prime sponsor, in part, on the basis of demonstrated effectiveness. Labor found that the Consortium funded title I delivery agents in fiscal years 1975 and 1976 without evaluating their efficiency or success in placing participants in unsubsidized employment. To provide for more objectivity in evaluating and selecting delivery agents, Labor directed the Consortium to use "open bidding" for fiscal year 1977. Also, Labor directed the Consortium to appoint more community representatives to its advisory Planning Council which is responsible for evaluating proposals and recommending those that should be funded. Labor believed that more community representatives on the Council would reduce the possibility of vested interest funding.

For fiscal year 1977 the Consortium established a system of open bidding enabling all interested organizations to submit proposals for title I funding. Under the new competitive bidding procedures, 57 proposals were received from new as well as established agencies. These proposals were evaluated as to the need for the services proposed and the ability of the agency to provide such services. The evaluations consisted of preparing a narrative summary and developing quantitative information on such items as the proposed placement rate, cost per placement, number to be served, and the administrative cost rate. In addition, for those agencies with prior CETA experience, the evaluations measured planned versus actual performance for such quantitive indicators as termination rates and cost per participant. Qualitative indicators such as job duration and retention rate were also evaluated to determine the quality of the on-going programs.

As a result of these evaluations, 20 of the 57 title I proposals were accepted and funded for fiscal year 1977. The net impact was the selection and funding of five new delivery agents and the termination of funding for two previously funded agencies whose proposals were rejected. The evaluation disclosed that the two agencies dropped had experienced relatively low placement rates and unacceptable high administrative costs; whereas, the 5 agencies added proposed to have high placement rates and low administrative costs.

In addition to purchasing training and employment services through its title I funding of the selected delivery agents, the Consortium purchases training slots on a tuition basis from recognized training institutions, such as vocational schools and hospitals. According to Consortium officials, this purchasing method provides greater flexibility in meeting the training needs of participants. As a result, the Consortium increased its allocation of funds for purchased slots in fiscal year 1978 and plans to meet most of its training needs in the future by this method. Conversely, the Consortium plans to reduce its reliance on community agencies by funding only those providing unique and needed services that cannot be readily purchased on a tuition basis.

In response to Labor's request for community representatives on the Planning Council, the Consortium appointed to the Council three private citizens and two business executives who are not receiving or competing for CETA funds. Also, the Consortium was considering appointing representatives who were participants in Consortium sponsored training programs.

OTHER PROBLEMS IDENTIFIED
BY THE DEPARTMENT OF LABOR

The Department of Labor, through its periodic monitoring and assessments of the Consortium's activities, has identified several other problems. Labor is now reasonably satisfied that progress is being made to solve them despite some residual problems. These problems and progress made to solve them are described below.

Unreliable management
information system

Prior to August 1977 the Consortium manually compiled and accumulated program performance data. In August 1977, the Consortium discontinued its manual process and attempted to rely solely on an automated management information system. 1/ However, Labor's evaluation showed that the data generated by the automated system was unreliable and could not be used for performance evaluation or for other management purposes.

In December 1977, the Consortium changed management information system managers and during our fieldwork began the process of correcting its computer problems. In March 1978, visits were made to the delivery agents to validate the data base and devise programming and processing changes so that future data will be reliable. In addition, Labor has hired an outside firm to review operation of the system and validate the information reported. However, as of March 1978, the Consortium still could not rely on the data generated by the system.

Inadequate procedures for
determining participant eligibility

Labor frequently has found that the Consortium has enrolled ineligible participants in some of its programs and has continually stressed to the Consortium the need to improve its procedures for determining participant eligibility.

1/Both the manual and automated systems were used for a short period during the changeover.

In an attempt to correct this problem, the Consortium contracted with the Ohio Bureau of Employment Services to administer centralized intake, job readiness assessments, and job referrals for CETA applicants. Under the contract, the Bureau will be responsible for certifying the eligibility of all title I, II, and VI program applicants. The contract is for the period of April 1, 1978, through September 30, 1978, and the cost is $543,548.

Inadequate fiscal controls over program expenditures

Labor found that the Consortium does not have adequate controls to insure that program funds are properly used and has periodically stressed the need for the Consortium to develop better controls and establish an internal audit staff to monitor these controls. This need was further emphasized by financial audits of 22 service delivery contracts performed by certified public accounting firms in 1977. These audits showed that adequate records were not maintained to show how funds were used or that the funds were expended in accordance with CETA regulations. As a result of these audits, Labor again stressed the need for the Consortium to improve its fiscal controls.

Establishment of an internal audit staff

In August 1977, the Consortium established an internal audit staff. The staff was initially used to perform fiscal and eligibility reviews. In February 1978, the Consortium began relying on the staff to make performance and contract compliance reviews. By the first week in March, two delivery agents had been reviewed. According to Consortium officials, a review of one of the delivery agents--the Urban League--showed that it was concentrating its efforts on high school graduates and not on those persons in greater need. The Consortium has since directed the Urban League to revise its program to emphasize job development and placement for those in greater need. According to a Consortium official the review of the second delivery agent, the Spanish American Committee, disclosed no major problems.

Financial management and reporting system planned

As one effort to improve fiscal controls over program expenditures the Consortium has solicited and received bids from certified public accounting firms for the development of a financial management and reporting system. This system when developed is to be implemented by the Consortium and its delivery agents. As of April 1978, the Consortium had not awarded a contract for development of the system. Also, the internal audit staff, as part of its audit efforts, has been providing technical assistance to some of the delivery agents to improve their fiscal controls.