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September 26, 2011

Mr. Doug Ringler, Director
Office of Internal Audit Services
Department of Management & Budget
Romney Building – Seventh Floor
111 S. Capitol, P.O. Box 30026
Lansing, Michigan 48909

Dear Mr. Ringler:

Enclosed is our Final Response to comments and citations made in the Office of the Auditor General's Performance Audit of the Bureau of Workforce Transformation's Oversight of the Michigan Works! Agencies for the period June 1, 2005 through September 30, 2010, issued July 2011.

Please note that Executive Order 2011-4 transferred the Bureau of Workforce Transformation from the former Department of Energy, Labor & Economic Growth to the newly created Workforce Development Agency, that is housed in the Michigan Strategic Fund, effective April 25, 2011. The delay in submitting this response was an inadvertent oversight that resulted from clarification and finalization of the associated transference of staff and responsibilities that is still in process.

If you have any questions regarding this response, please feel free to call me at (517) 335-5875.

Sincerely,

Signature Redacted

Janet Howard, Deputy Director
Strategic Planning, Operations, Policy & Finance

Enclosure

cc: Mike Finney
Minesh Mody
Jim McBryde



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Summary Table of Oversight of the Michigan Works! Agencies (June 1, 2005 through September 30, 2010)

Finding	WDA Response	WDA Corrective Action	Date of Compliance
#1	Agree	WDA has investigated implementing a continuous quality improvement process. Due to federal budget cuts, the agency has been unable to implement at this time.	Complied by 12/31/12
#2	Agree	WDA has implemented procedures to conduct annual MWA visits with additional follow-up, based on review outcomes, as necessary.	Complied with on 8/15/2011
#3	Agree to Part A but disagrees with Part B and Part C	WDA has complied with Part A. MWA's Standards of Conduct monitoring is carried out and complies with the Federal Office of Management and Budget's Common Rule.	Part A complied with 8/15/2011
#4	Agree in part	All MWA agencies are providing the information necessary for the State to meet Federal fiscal reporting requirements.	Complied by 12/31/2012

#5

Agree

The WDA issued PI 11-02 on July 1, 2011 to provide guidance to MWAs regarding the allowability and reasonableness of administrative expenditures.

Part A complied with 7/1/2011

**Performance Audit of the Bureau of Workforce Transformation's
Oversight of the Michigan Works! Agencies
(June 1, 2005 through September 30, 2010)
Agency Final Response**

Finding #1: Continuous Quality Improvement (CQI) Process

BWT needs to establish a comprehensive CQI process to evaluate successes and shortcomings of its workforce development programs.

Agency Response: WDA agrees and will explore the feasibility of achieving full compliance.

WDA has a continuous quality improvement process in place that encompasses the components identified in this report. WDA collects, reviews, assesses and reports program data and outcomes in accordance with the state and federal statutes that provide the program funding and performance goals. Under the WDA administration and oversight of WIA and TAA, the State of Michigan has met or exceeded the established federal performance goals.

WDA continues to engage in activities to raise performance levels even higher. These activities include, but are not limited to: (1) an aggressive effort to improve local data validation outcomes by providing ongoing system-wide and agency specific training on such topics as eligibility certification, required fiscal documentation and training plans; (2) providing ongoing policy updates and mandating training to Michigan Works! Agencies and their sub-recipients based on performance; (3) numerous improvements to the One Stop Management Information System (OSMIS) to make it more user friendly in an effort to increase data collection and report generation capacity; as well as (4) working with the Council for Labor and Economic Growth to create and implement Boards of Excellence under which performance goals are established as benchmarks to recognize exemplary performance of workforce development boards in the management and delivery of program services, as well as regional leadership efforts to partner and obtain additional resources to enhance services to job seekers and employers. All of these activities were implemented to improve the effectiveness and efficiency of the programs in response to data review and evaluation. Under its new structure, the WDA has identified existing staff to develop and oversee a formal evaluation function.

WDA acknowledges that more extensive evaluation of all participant and fiscal data, a complete review of all individual case files, longer-term participant tracking, and access to more current wage-record data would likely generate additional recommendations for program modifications and improvements; however, such efforts are extremely time consuming, labor intensive and expensive. At a minimum, these activities would require increasing staff capacity and technology upgrades beyond the current level of available funding. WDA will explore the availability of additional funding for more extensive evaluation. The estimated date of compliance is December 31, 2012.

Finding #2: On-Site Monitoring

BWT needs to improve its efforts to conduct on-site program monitoring to ensure that workforce development activities are sufficient to promote, establish, implement and utilize methods to achieve high-level performance and outcomes.

Agency Response: WDA agrees with this finding and has complied with the recommendation. Specifically, since FY 2009 the WDA has:

- Revised a comprehensive TAA programmatic review guide;
- Began conducting TAA on-site monitoring in March 2010 (16 on-site reviews have been conducted to-date);
- Developed and piloted a new WIA programmatic review guide that assures compliance with federal and state regulations – August 15, 2011;
- Completed two WIA field (trial) reviews performed under consultation with USDOL staff;
- Conducted official review of the Western UP – MWD on August 24, 2011;
- Scheduled official review of the DWDD-MWA for November 25, 2011;
- Identified best practices, findings or concerns with local program design, local staff training needs and program areas needing additional clarification for each program in WDA.

WIA and TAA visits to each MWA will now be scheduled annually, with additional follow-up based on review outcomes, as necessary.

Finding #3: Conflicts of Interest

BWT needs to strengthen its disclosure and resolution process regarding potential conflicts of interest for MWA staff, MWA contractors and their employees, and workforce development board members.

- a. BWT did not require MWA staff and MWA contractors' employees to periodically disclose and resolve potential conflicts of interest.*
- b. BWT did not attempt to verify the completeness of conflicts of interest reported by workforce development boards.*
- c. BWT did not follow up on reported conflicts of interest to ensure that they were appropriately resolved.*

Agency Response: WDA agrees with Part A but disagrees with Parts B and C of this finding.

MWA Staff and Contractors

Annually, the WDA, through its Office of Audit and Financial Compliance, obtains and reviews a copy of each MWA and select service provider's Standards of Conduct, which governs the performance of their employees engaged in the award and administration of contracts. MWA's Standards of Conduct monitoring is carried out and complies with the federal Office of Management and Budget's Common Rule. If a MWA or service provider is found to not be in compliance with the requirements, corrective action is required. The local agencies have been advised that conflict of interest is now reviewed as a part of all annual field visit reviews conducted by program staff.

Workforce Development Board Members

Since the OAG review was completed, the WDA developed a more comprehensive desk audit/site review process and amended the forms used for disclosure of possible conflicts of interest by local WDB's to include the date of the meeting in which the vote in question was taken. Upon receiving the disclosure form at the end of each calendar year, WDA staff review the applicable meeting minutes of the local WDB to assure that the member actually abstained from voting on the expenditure. In order to address actual (vs. perceived) conflicts of interest situations in a timely manner, by November 30, 2011, the WDB certification policy will be updated to include a requirement that each WDB submit a Workforce Development Board Disclosure Report Form following each meeting. The form will document that a member has abstained from voting due to a perceived conflict of interest and will include the meeting minutes indicating the members' abstention.

Per federal and state statute, educators are a required sector of the local WDB and are allowed to remain as members of the board without presenting a conflict of interest despite receiving funding from the boards, provided the member does not receive a direct benefit from the expenditure, disclosure of the perceived conflict is made to WDA, and the member abstains from voting on the specific item in question.

Local WDB's are reviewed every two years, pursuant to the Workforce Investment Act.

Finding #4: MWA Expenditure Reporting

BWT needs to require MWAs to report budgetary and expenditure information in detail sufficient for appropriate budgetary control.

Agency Response: WDA agrees in part with this finding.

WDA disputes the assertion that MWA's do not retain sufficient budgetary expenditure detail, as all agencies are providing the information necessary for the state to meet federal fiscal reporting requirements.

WDA concurs that it did not require MWA's to submit expenditure detail as a part of routine quarterly fiscal reporting that would allow analysis of MWA participant-direct expenditures. Accordingly, WDA will explore the feasibility of implementing additional budgetary and expenditures reporting controls. Although monitoring of expenditures at the level of detail outlined in this report may assist in the evaluation of programs, costs associated with implementation such as staffing and other ancillary resources are not currently available given existing funding levels. Our estimated date of compliance is tentatively scheduled for December 31, 2012.

Finding #5: Program Administrative Expenditure Guidance

BWT needs to provide guidance to MWAs regarding the allowability and reasonableness of administrative expenditures.

Agency Response: WDA agrees with this finding.

The WDA issued PI 11-02 on July 1, 2011 to address the issues. Furthermore after consulting with the WDA, the MWA that maintained a business membership with a local country club has terminated that membership effective August 31, 2011.