

Follow-Up—Federal Workforce Investment Grants

The Employment Development Department
Established Procedures for Seeking Discretionary
Grants, but Needs to Strengthen Them

Report 2015-508

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September 29, 2015

2015-508

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

This report presents the results of a follow-up audit of the Employment Development Department (EDD) related to a recommendation made in 2012 by the California State Auditor (state auditor). In March 2012 the state auditor issued a report titled *Federal Workforce Investment Act: More Effective State Planning and Oversight Is Necessary to Better Help California's Job Seekers Find Employment*, Report 2011-111. The 2012 report included a recommendation aimed at ensuring EDD maximizes grant funding opportunities related to workforce investment.

This report concludes that EDD, in response to our recommendation, updated the grant seeking procedures it uses for identifying, reviewing, and choosing whether to apply for federal discretionary grant opportunities related to workforce investment. However, it did not consistently prepare executive summaries that include the factors it considered, record its decisions whether to pursue or forgo grants, or retain supporting documentation as its procedures require. Specifically, EDD did not prepare an executive summary for three grants for which it was eligible to apply. For four other grants EDD prepared an executive summary, but either did not include the factors it considered in making its decisions about whether to apply, its decisions about whether to apply, or both. We also identified three grants for which EDD was eligible to apply that it did not include on its Grant Research Tracking Sheet.

Additionally, during our review we found that the California Workforce Investment Board (state board) also researches potential grant funding for workforce investment and that the state board and EDD are in the process of formalizing policies that will delineate each entity's role in seeking grant funding. However, the state board currently lacks a formal process for identifying and evaluating grant funding opportunities and does not track or consistently document the results of its efforts. Specifically, the state board provided documentation indicating it considered applying for two grants, but could not explain why it ultimately chose to forgo these opportunities. Only after making inquiries of EDD were we able to obtain documentation supporting the state board's decision.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

The Employment Development Department (EDD) updated the grant identification and analysis procedures (grant-seeking procedures) it uses to pursue federal grant opportunities in response to a recommendation in our March 2012 report titled *Federal Workforce Investment Act: More Effective State Planning and Oversight Is Necessary to Better Help California's Job Seekers Find Employment*, Report 2011-111. Our follow-up audit found that EDD created a system for identifying, reviewing, and choosing whether to apply for discretionary grants, meaning grants generally awarded on a competitive basis, related to workforce investment. Through this process EDD identified 34 potential grants between April 2012 and April 2015, which it listed on a Grant Research Tracking Sheet (tracking sheet). Of the 17 grants we reviewed, EDD's Workforce Services Division (division) generally demonstrated that it evaluated its ability to pursue the 10 grants for which it was eligible to apply. Further, it ultimately pursued two of the 10 grants it evaluated and was awarded a total of \$8.7 million for them. In the other eight cases, EDD declined to pursue grants for which it believed it was not well positioned. Its reasons for not pursuing these grants had merit.

However, EDD did not consistently follow its process for documenting the steps it took in determining whether to pursue some of the grant opportunities we reviewed. Specifically, EDD did not consistently prepare executive summaries to include the factors it considers, record its decisions as to whether to pursue or forgo grants, or retain supporting documentation, as required by its procedures. According to the division chief, staff that are responsible for documenting these steps do not have the knowledge and expertise to address some of the factors that management considers when determining whether or not to pursue a grant opportunity. He further stated that members of EDD's senior management often discuss these factors during meetings but do not document the result of these discussions.

In addition to the 34 grants EDD identified through its process, we identified three grants related to workforce investment, available between April 2012 and April 2015, that EDD did not include on its tracking sheet. According to the division chief, EDD identified and considered these grants, though staff did not enter them on the tracking sheet. He also stated that either these grants were not in line with EDD's core mission and services or EDD would not have been a competitive applicant. Our review of these grants found that EDD's reasons for not pursuing them have merit. Nonetheless, by not consistently following its process, EDD lacks a historical record that could help it efficiently pursue future grant opportunities.

Audit Highlights . . .

Our follow-up audit of the Employment Development Department's (EDD) progress in addressing an issue we raised in a 2012 report regarding the Federal Workforce Investment Act revealed the following:

- » *EDD has created a system for identifying, reviewing, and choosing whether to apply for discretionary grants related to workforce investment.*
 - *It generally demonstrated that it evaluated its ability to pursue the grants for which it was eligible to apply.*
 - *Its reasons for not pursuing other grants had merit.*
- » *EDD did not consistently follow its process for documenting the steps it took in determining whether to pursue some of the grant opportunities we reviewed.*
- » *We identified three grants related to workforce investment, available between 2012 and 2015, that EDD did not include on its Grant Research Tracking Sheet.*
- » *The California Workforce Investment Board does not have a formal process to track its efforts related to pursuing grant opportunities.*

In addition, it risks missing grant opportunities or being unable to demonstrate that it has considered all available opportunities to maximize federal funding for workforce investment.

Like EDD, the California Workforce Investment Board (state board)¹ researches potential grant funding for workforce investment. However, the state board lacks a formal process to track its efforts related to pursuing grant opportunities. As a result, the state board was not able to provide us documentation of its decisions to pursue or forgo two grant opportunities identified on EDD's tracking sheet for which the state board was eligible to apply. Only after making inquiries of EDD were we able to obtain additional documentation supporting the state board's decisions to forgo these two grant opportunities. Without a formal grant policy in place to track its efforts, the state board cannot demonstrate that it has evaluated the merits of pursuing workforce investment grant funding. According to the state board's chief of operations, since June 2013 the state board has taken a more proactive and collaborative role with EDD in identifying, analyzing, and applying for federal grant opportunities. Additionally, the state board and EDD are in the process of formalizing new policies for their collaborative grant research activities. They anticipate finalizing these policies by the end of December 2015.

Recommendations

To ensure that its grant-seeking process is effective in considering grant opportunities related to workforce investment, EDD should update its grant identification and analysis procedures by December 31, 2015, to include the following:

- Identification of the appropriate level of management or staff to analyze and document the factors considered in pursuing or forgoing grant opportunities.
- Documentation of grant analyses, including factors considered in pursuing or forgoing grant opportunities.
- Documentation of decisions related to pursuing or forgoing grants.
- A method for ensuring that the process is consistently implemented.
- Training of appropriate management or staff about EDD's grant-seeking process.

¹ Effective January 1, 2016, the California Workforce Investment Board will become the California Workforce Development Board.

To ensure that the State maximizes federal funding opportunities related to workforce investment, EDD and the state board should formalize their collaborative grant-seeking procedures by December 31, 2015.

To ensure that the state board assesses the merits of pursuing federal grant funding for workforce investment programs in California, it should establish procedures by December 31, 2015, that include, at a minimum, the following:

- The methods it will use to identify federal grant opportunities.
- The factors it will consider in its decisions to pursue or forgo applying for these grants.
- The process by which it will document its analyses of grants and its final decisions to either pursue or forgo grant opportunities.
- A method for ensuring that the process is consistently implemented.

Agency Comments

EDD and the state board agreed with our recommendations and said they would implement them.

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Introduction

Background

The Workforce Investment Act of 1998 and the Workforce Innovation and Opportunity Act

The United States Congress (congress) enacted the federal Workforce Investment Act of 1998 (WIA) to, among other things, consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs in the United States. Specifically, WIA reformed federal job training programs and created a new, comprehensive workforce investment system. The cornerstone of this system is one-stop service delivery, which unifies numerous training, education, and employment programs in each community so that individuals can have seamless access to workforce investment services. WIA required each state's governor to establish a state workforce investment board, to submit a state workforce investment plan, to designate local workforce investment areas (local areas) within the state, to oversee the creation of local workforce investment boards (local boards), and to certify one local board for each local area in the state. For the purposes of delivering workforce investment services, California has designated 48 local areas. Each local area is governed by a local board that sets policy for the workforce investment system within the local area.

Congress passed the Workforce Innovation and Opportunity Act (WIOA) in 2014 to strengthen the U.S. workforce development system through innovation in, and alignment and improvement of, employment, training, and educational programs, and to promote individual and national economic growth. WIOA retains the framework of the workforce investment system established by WIA. However, WIOA replaces WIA and amends the Wagner-Peyser Act and the Rehabilitation Act of 1973. Among other things, WIOA requires states to establish a plan for coordinating the activities related to core programs, described in the text box, and for improving access to training services. In general, WIOA's provisions became

Workforce Innovation and Opportunity Act Core Programs

Youth, adult, and dislocated worker programs under Title I-B aim to:

- Increase employment, retention, and earnings of participants, as well as increase occupational skill attainment.
- Improve the quality of the workforce, reduce welfare dependency, and enhance productivity and competitiveness.

Education and literacy services for adults under Title II aim to:

- Provide adult education and literacy services to assist adults to become literate, and obtain the knowledge and skills necessary for employment and self-sufficiency.
- Assist adults who are parents to obtain the educational skills necessary to become full partners in the educational development of their children.
- Assist adults in the completion of a secondary school education.

Wagner-Peyser employment services under Title III aim to:

- Develop a nationwide system of public labor exchange services, provided as part of the one-stop service delivery system.
- Develop continuous improvement models for the nationwide system that ensure private sector satisfaction and that meet the demands of job seekers.
- Provide the employment services and other activities in which individuals are required to participate in order to receive unemployment compensation.
- Improve service delivery, avoid duplication, and enhance coordination of services.
- Develop electronic tools that may be used to improve access to workforce information for individuals.

Vocational rehabilitation services under Title IV aim to:

- Provide vocational rehabilitation services for individuals with disabilities and empower them to maximize employment, economic self-sufficiency, independence, and inclusion and integration into society.
- Maximize opportunities for individuals with disabilities for competitive integrated employment.
- Increase employment opportunities and employment outcomes for individuals with disabilities.
- Ensure that youth with disabilities and students with disabilities who are transitioning from receipt of special education services have opportunities for success.

Sources: The Workforce Innovation and Opportunity Act (Public Law 113-128) and Title 29, United States Code, sections 49b and 701.

effective on July 1, 2015. However, some provisions of WIOA become effective on other dates. For example, WIOA provisions requiring new unified state plans become effective on July 1, 2016.

Administration of WIOA Programs and Activities in California

The California Workforce Investment Board (state board)² and the Employment Development Department (EDD) play key roles in implementing WIOA. The state board is an advisory body that is responsible for developing workforce-related policies. For example, the state board is responsible for assisting the governor in creating a unified state plan, developing and continuously improving the statewide workforce investment system, developing allocation formulas for the distribution of certain funds to local areas, and developing and updating comprehensive state performance measures. Under state law that takes effect in January 2016, EDD has the authority to administer the requirements of WIOA, including establishing accounting, monitoring, auditing, and reporting criteria and procedures to ensure California's compliance with WIOA's objectives and requirements.

Workforce Investment Funding

The United States Department of Labor (Labor) administers several WIOA programs at the federal level and provides funding to states that implement workforce investment programs. The categories of workers Title I funding targets include youth, adult, and dislocated workers. The federal government generally uses a formula rather than a competitive process to allot these funds to the states (formula-based funding). WIOA requires states that receive Title I formula-based funding for adult and dislocated workers to use the funds to provide career and training services through the one-stop service delivery system. These services include individual eligibility determination, initial skills assessments, job search and placement assistance, career counseling, and occupational skills and on-the-job training. Title I also provides formula-based funding for workforce investment activities for eligible youth, such as assessing service needs and academic and skill levels.

Both WIA and WIOA allow each state's governor to reserve up to 15 percent of the Title I formula-based funding for statewide workforce investment activities for youth, adult, and dislocated workers. To award these reserved funds to local organizations,

² Effective January 1, 2016, the California Workforce Investment Board will become the California Workforce Development Board.

EDD's Solicitation and Grants Unit (grants unit) coordinated with the state board regarding policy initiatives and developed and implemented a statewide process for soliciting proposals. For example, during fiscal year 2011–12, EDD awarded \$5 million of these reserved funds to local organizations to administer the Veterans' Employment-Related Assistance Program. The grants unit also researched discretionary grant funding opportunities offered by Labor and other federal agencies for workforce investment programs. These discretionary grants are generally awarded on a competitive basis, and EDD's grants unit prepared the applications for the grants EDD chose to pursue.

However, beginning in 2011, as part of the annual federal appropriations acts, Congress reduced the percentage of Title I funding that governors could reserve. For each year from 2011 through 2013, Congress reduced the percentage to 5 percent, which EDD used to cover its cost of administering workforce investment programs in California. For this reason, according to the chief of EDD's Workforce Services Division (division), EDD phased out its grants unit beginning in early 2012 through a combination of staff attrition and the redirection of remaining staff to other positions in the department by the end of that year. The division then became responsible for seeking grant opportunities. In 2014 Congress increased the reserve level to almost 9 percent and, beginning July 1, 2015, further increased it to 10 percent. As a result, EDD is currently in the process of reestablishing a grants unit to administer the award of these funds and research grant opportunities. The division chief said EDD began establishing a new grants unit in early 2015 and finished hiring staff for the unit in August 2015.

Like EDD, the state board researches discretionary grant funding opportunities for workforce investment. As we discuss in more detail in the Audit Results, EDD and the state board are currently working to define their respective roles in the collaborative grant-seeking process.

The amount of workforce investment formula-based funding the federal government awarded to California ranged between \$391 million and \$411 million annually for fiscal years 2011–12 through 2014–15. The federal government also awarded between \$80 million and \$84 million annually for fiscal years 2011–12 through 2014–15 to California for Wagner-Peyser Act services. EDD staff provide these services, which include job search assistance, job referrals, placement assistance for job seekers, reemployment services to unemployment insurance claimants, and recruitment services for employers with job openings, at one-stop centers throughout California. In addition to formula-based funding, EDD applied for and was awarded \$8.7 million for two discretionary grants between April 2012 and April 2015.

Scope and Methodology

In our March 2012 report titled *Federal Workforce Investment Act: More Effective State Planning and Oversight Is Necessary to Better Help California's Job Seekers Find Employment*, Report 2011-111, we reviewed the State's administration of WIA funding. We made several recommendations to EDD, other state agencies, and the Legislature regarding a variety of issues related to the administration of WIA. This follow-up audit focuses on one recommendation we made to EDD related to maximizing federal funding opportunities. In September 2012 EDD indicated that it had fully implemented this recommendation. Table 1 shows the recommendation we reviewed and the methods used to follow up on EDD's implementation.

Table 1
Selected Recommendation in the California State Auditor's Report 2011-111 and the Methods Used to Follow Up on Its Implementation

RECOMMENDATION	METHOD
<p>To ensure that the State maximizes federal funding opportunities related to workforce investment, the Employment Development Department (EDD) should take the following steps:</p> <ol style="list-style-type: none"> a. Update its written policy to include, at a minimum, the following procedures: <ol style="list-style-type: none"> i. The methods it will use to identify federal grant opportunities. ii. The factors it will consider in its decisions to pursue or forgo applying for these grants. iii. The process by which it will document its final decisions to either pursue or forgo grant opportunities. 	<ul style="list-style-type: none"> • Obtained and assessed EDD's policies and procedures for identifying and pursuing federal funding opportunities and determined the methods EDD uses to identify federal grant opportunities, the factors it considers in its decisions to pursue or forgo grant opportunities, and the process by which EDD documents its final decisions to either pursue or forgo grant opportunities. • Determined whether EDD adhered to its policies and procedures for identifying and pursuing federal funding opportunities for 17 grants judgmentally selected from EDD's electronic Grant Research Tracking Sheet (tracking sheet) with grant application deadlines between April 2012 and April 2015. • Determined whether EDD received funding for the 17 selected grants by reviewing grant award documents and grant awards listed on the United States Department of Labor's website. • Identified the population of workforce investment grant opportunities with grant application deadlines between April 2012 through April 2015 and performed the following. <ul style="list-style-type: none"> – Determined whether EDD identified the opportunities on its tracking sheet. – Determined whether EDD applied for and received an award for grants it was eligible to pursue. – Interviewed EDD management to determine why EDD did not pursue grants for which it was eligible and did not apply. • Obtained an understanding of the California Workforce Investment Board's roles, responsibilities, and processes related to seeking federal grant funding for the State's workforce investment programs.

Sources: California State Auditor's (state auditor) March 2012 report titled *Federal Workforce Investment Act: More Effective State Planning and Oversight Is Necessary to Better Help California's Job Seekers Find Employment*, Report 2011-111, the state auditor's analysis of EDD's six-month response, and information and documentation identified in the table column titled *Method*.

Audit Results

The Employment Development Department Updated Its Procedures Related to Obtaining Discretionary Federal Funding for Workforce Investment

The Employment Development Department (EDD) updated the grant identification and analysis procedures (grant-seeking procedures) it uses to seek discretionary federal grant opportunities in response to a recommendation in our March 2012 report titled *Federal Workforce Investment Act: More Effective State Planning and Oversight Is Necessary to Better Help California's Job Seekers Find Employment*, Report 2011-111. Specifically, our follow-up audit confirmed that EDD created a system for identifying, reviewing, and choosing whether to apply for discretionary grant opportunities related to workforce investment. Between April 2012 and April 2015, EDD applied for two grants, and was awarded a combined total of \$8.7 million for them. Although we found that EDD did not consistently follow its grant-seeking procedures, it was able to provide us with additional documentation indicating that it had adequately considered the available grant opportunities.

In April 2012 EDD established updated procedures to look for and analyze grant opportunities. As shown in the Figure on the following page, these procedures require EDD's Workforce Services Division (division)³ staff to search for and track grant opportunities related to workforce training and employment activities and to document information related to these grant opportunities and EDD's decisions as to whether to apply for them. Staff are to prepare an executive summary, which includes information about eligible applicants, the potential grant amount, required partners, and any other special requirements. The division's senior management and the deputy director of the Workforce Services Branch (deputy director) use this information to analyze EDD's ability to pursue the grant or determine whether another California entity would be better positioned to apply for the opportunity. Factors EDD considers in its decision regarding whether to apply for a grant include those listed in the text box. Once division senior management and the deputy director decide whether EDD should apply, staff are expected to memorialize and electronically file the documentation related to EDD's decision. Following EDD's decision, the California Workforce Investment Board (state board)⁴ and, in some cases, the Labor and Work Force Development Agency ratify it. The state board also searches for grant opportunities but does not have a formal process for these activities, as we discuss later in this report.

Factors to consider when determining whether to pursue a grant opportunity:

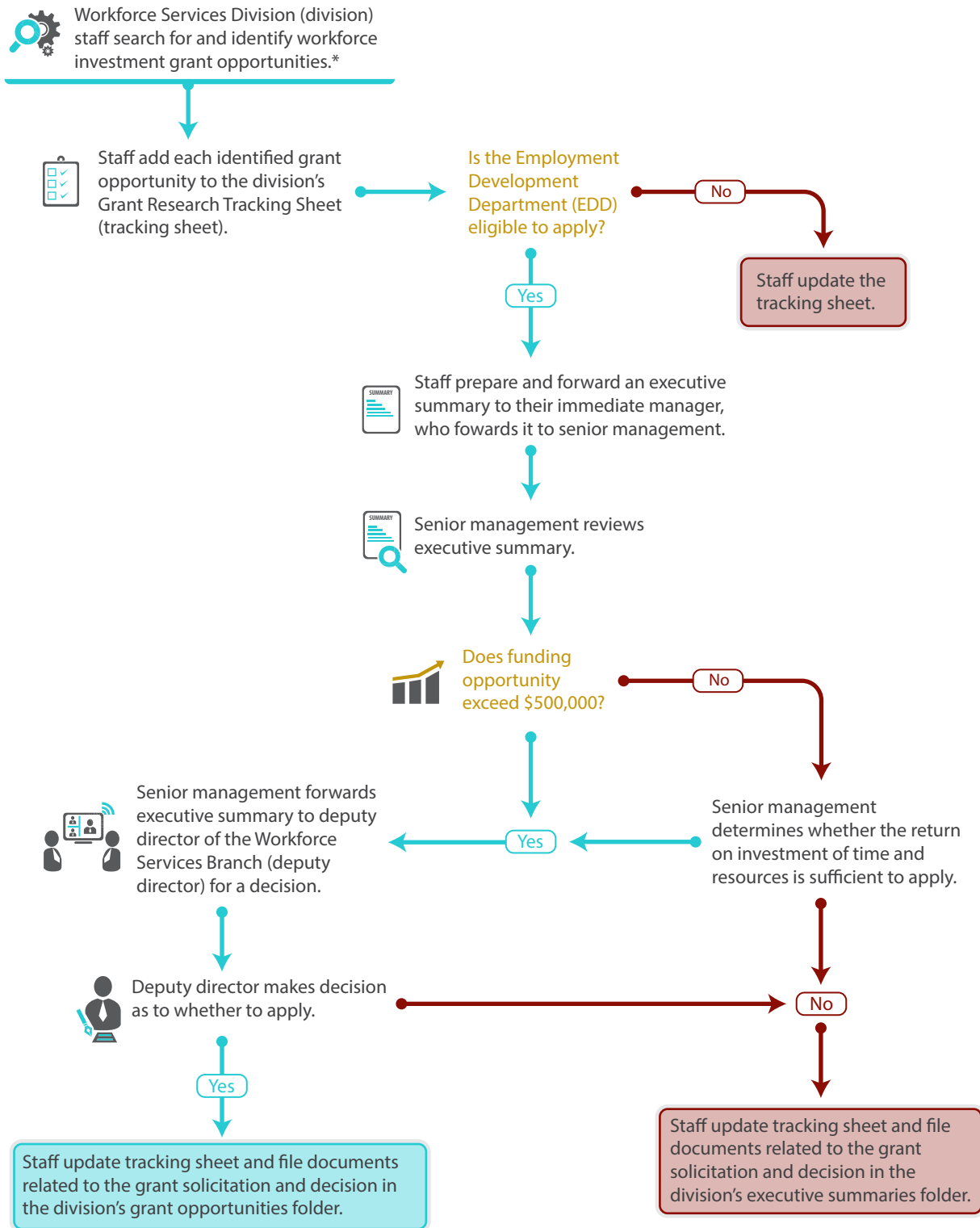
- Does the purpose of the grant fall within the scope of the Employment Development Department's (EDD) employment and training services?
- Does EDD have the expertise to write the grant application?
- Does EDD have the time and resources to apply for the grant?
- Does EDD have the resources to meet the requirements of the grant?
- Does EDD have the support of required partners to meet the requirements of the grant?
- Is it more advantageous for other state or local agencies or multiple organizations to apply for the grant?

Sources: EDD's Workforce Services Division's grant recommendation procedures.

³ The division is part of the Workforce Services Branch.

⁴ Effective January 1, 2016, the California Workforce Investment Board will become the California Workforce Development Board.

Figure
Employment Development Department’s Workforce Services Branch Procedures for Seeking Grant Funding



Sources: EDD's Workforce Services Division's grant recommendation procedures.

* The division is part of the Workforce Services Branch.

Through its process EDD identified 34 potential grants that had application deadlines between April 2012 and April 2015, as indicated on its Grant Research Tracking Sheet (tracking sheet). We reviewed 17 of these 34 grants during our follow-up audit. For these 17 grants, EDD generally demonstrated that it evaluated its ability to pursue the 10 grants for which it was eligible to apply. As indicated in Table 2 on page 13, EDD applied for two of these 10 grants. In 2014 EDD identified and applied for a Job-Driven National Emergency Grant that funded a project to prepare participants for in-demand jobs by providing work-based training, such as apprenticeships, customized training, and on-the-job training. The \$6.2 million grant award also funded supportive services in the 11 California counties that were the focus of the grant. In the same year, EDD identified and applied for a Disability Employment Initiative grant that will help expand the capacity of the one-stop service delivery system. The \$2.5 million award is designed to improve employment outcomes for disabled youth and adults by increasing the number of individuals who receive credentials or participate in existing programs.

For the remaining eight grants we reviewed for which EDD was eligible, its reasons for not pursuing the grants had merit. EDD declined to pursue grants for which it believed it was not well positioned. Through its process, EDD considers whether it is more advantageous for other state or local agencies or organizations to pursue workforce investment grant opportunities. For example, EDD chose to forgo pursuing an H1-B Ready to Work Partnerships (H1-B Ready) grant opportunity in 2014 because it believed local organizations were better suited to administer the program. Specifically, this grant was designed to provide individualized counseling, training, and other specialized services to long-term unemployed workers that would lead to employment in certain occupations and industries. Applicants for this grant were required to design their programs to support industries and occupations in demand in their regions and for which employers use H-1B visas to hire foreign workers. H-1B visas allow employers to hire nonimmigrant foreign workers in specialty occupations that require highly specialized knowledge and the attainment of at least a bachelor's degree or its equivalent. Applicants for the H1-B Ready grant were also required to have at least three employers or a regional industry association consisting of at least three employers actively engaged in the project. EDD noted on its executive summary for this grant that the program addresses the specific workforce needs of certain locations and of employers who hire foreign workers using H-1B visas. Thus, instead of pursuing this grant, EDD chose to issue an information notice on its website to alert local organizations to the opportunity. Two local organizations in California received a combined total of nearly \$12 million through this grant.

For the remaining eight grants we reviewed for which EDD was eligible, its reasons for not pursuing the grants had merit.

EDD Does Not Consistently Document Its Analyses and Decisions Related to Discretionary Grant Funding Opportunities

Although EDD took action to update its procedures for identifying and evaluating discretionary federal grant opportunities related to workforce investment, it does not consistently follow them. As part of its updated grant-seeking procedures, EDD included procedures to ensure that it retains documentation of the steps it takes in seeking grant opportunities. These procedures require staff to identify grant opportunities related to workforce investment; to document, on a tracking sheet and in executive summaries, the consideration of these opportunities and its decision to pursue or forgo the grant; and to electronically retain supporting documentation. However, EDD did not consistently prepare executive summaries, record its decisions, or retain supporting documentation.

EDD failed to prepare executive summaries documenting its consideration of three of the 10 grants we reviewed for which it was eligible.

EDD failed to prepare executive summaries documenting its consideration of three of the 10 grants we reviewed for which it was eligible. For one of the three grants—the Workforce Innovation Fund grant available in 2014—management and staff of the division were unable to locate an executive summary or any other analyses. Through inquiries with EDD’s Fiscal Programs Division, however, we obtained an email prepared by the deputy director that contained an analysis of the grant and a decision not to apply. His analysis concluded that EDD was not in a strong position to submit a competitive application because the application process was quite burdensome regarding supporting data, evaluation requirements, and evidence-based support, and the application time frame was very short. For the YouthBuild grant offered in 2012, EDD did not prepare an executive summary because staff indicated on EDD’s tracking sheet that it was not eligible to apply. We determined that EDD was technically eligible to apply, given that eligible applicants include public agencies that carry out activities under WIA. However, this grant is intended to assist at-risk youth in obtaining a high school diploma and acquiring occupational skills training through the construction or rehabilitation of housing in their community. According to a manager in the division, YouthBuild is inherently a local program whose strategy is to fund temporary jobs for specific youth in specific neighborhoods, and as such a state-level program is unlikely to be able to implement this program effectively. Thus, a specialized or local entity would appear to be best suited for this grant. For the third grant—the Disability Employment Initiative grant—EDD indicated on its tracking sheet that it did not prepare an executive summary because it had already decided to apply for the grant. As discussed previously, EDD received an award for this grant.

For the other seven grants we reviewed, EDD prepared an executive summary; however, it did not include the factors it considered for three of these grants or a recommendation on whether to pursue

the opportunity for three of the grants. Once staff identify a grant for which EDD is eligible to apply, EDD’s procedures require them to prepare an executive summary that documents the factors considered and a recommendation on whether to apply. However, as Table 2 shows, three of the seven executive summaries did not address the factors EDD considered in making its decision to pursue or forgo the grant, and three did not include a recommendation on whether to pursue the grant. According to the division chief, staff who prepare executive summaries and the tracking sheet do not have the knowledge and expertise to address all of the factors that have to be considered when determining whether or not to pursue a grant opportunity. He further said that EDD’s senior management often discusses these factors during meetings or in email communications that are not documented in EDD’s grants tracking system. According to EDD’s procedures, staff are also supposed to electronically file documentation related to the grants it decides to forgo in a documentation folder on EDD’s computer system. However, EDD had only three documents stored in this folder, related to two grants it evaluated during fiscal year 2011–12.

Table 2
Scorecard of the Employment Development Department’s Workforce Investment Grant Analysis and Documentation for Selected Grants Between April 2012 and April 2015

GRANT NAME	FISCAL YEAR	EXECUTIVE SUMMARY PREPARED	EXECUTIVE SUMMARY INCLUDED FACTORS THE EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD) CONSIDERED	EXECUTIVE SUMMARY INCLUDED A RECOMMENDATION
Serving Young Adult Ex-Offenders Through Training and Service-Learning	2011–12	✓	✓	✓
Workforce Data Quality Initiative	2011–12	✓	✗	✓
YouthBuild Grants	2011–12	✗	■	■
Advanced Manufacturing Jobs and Innovation Accelerator Challenge	2012–13	✓	✗	✗
Pay for Success Pilot Projects	2012–13	✓	✗	✗
H1-B Ready to Work Partnerships	2013–14	✓	✓	✓
Job-Driven National Emergency Grants*	2013–14	✓	✓	✗
Workforce Innovation Fund Grants	2013–14	✗	■	■
American Apprenticeship Initiative	2014–15	✓	✓	✓
Disability Employment Initiative Grants*	2014–15	✗	■	■

Sources: EDD’s Workforce Services Division’s grant documentation, and Grant Research Tracking Sheet.

✓ = EDD followed its process.

✗ = EDD did not follow its process.

■ = EDD did not prepare an executive summary. Therefore, we did not count these items as errors.

* Grants for which EDD applied and received a grant award.

Further, EDD's tracking sheet did not identify three grants available between April 2012 and April 2015 related to workforce investment for which it was eligible. EDD's procedures require that staff identify grant opportunities related to workforce training and employment activities and update EDD's tracking sheet with certain information related to each grant, including EDD's eligibility. Although these three grant opportunities are not on its tracking sheet, according to the division chief, EDD identified and considered each of them. However, because EDD did not follow its process and document its identification and evaluation of these grant opportunities, we were unable to substantiate the assertion that EDD considered them.

The division chief also said that the three grants either were not in line with EDD's core mission and the services it provides or contained requirements that would have been difficult for EDD to meet, so that it would not have been a competitive applicant. Our review of these three grant opportunities found that the reasons EDD gave for not pursuing them appear to have merit. For example, EDD did not list on its tracking sheet the National Farmworker Jobs Program grant that was available in 2013. This program is intended to assist eligible migrant and seasonal farmworkers and their dependents to prepare for and retain jobs that provide stable, year-round employment, both within and outside agriculture. The United States Department of Labor's solicitation for this grant required applicants to demonstrate an understanding of the employment challenges facing migrant and seasonal farmworkers and their dependents, and a familiarity with the agricultural industry and labor market needs of the intended service area. Thus, this opportunity targets a specific industry and service area that would appear to fit best with a specialized or local entity. According to the division chief, EDD was not best suited to pursue this grant because EDD does not have the expertise and resources to administer this type of program at the local level. The division chief also said there are local organizations in California that are long-standing recipients of funding under this program and are better suited to apply for and administer such a program in California. He further stated that it would not be in the best interests of the State to have EDD compete against these organizations for the limited funding provided through this grant solicitation. One local organization in California was awarded \$1.8 million through this grant opportunity.

According to the division chief, the elimination of EDD's grants unit in early 2012 significantly contributed to EDD not consistently following its grant-seeking procedures.

According to the division chief, the elimination of EDD's grants unit in early 2012, as discussed in the Introduction, significantly contributed to EDD not consistently following its grant-seeking procedures. Specifically, the division chief explained that the grants unit was dedicated to administering the award of statewide workforce investment grants to local entities and seeking additional grant opportunities. When the grants unit was eliminated,

he said EDD assigned responsibility for carrying out EDD's grant-seeking and other job duties to one staff member. As a result, he said, staff did not always adequately document EDD's identification and consideration of additional grant opportunities. Nevertheless, because EDD has not consistently followed its process for identifying and analyzing grant opportunities, it lacks a historical record that could help it efficiently pursue future grant opportunities. Further, when EDD does not follow its process, it risks missing grant opportunities or may be unable to demonstrate that it has considered every opportunity that would help the State maximize federal funding for workforce investment.

The State Board Lacks Formal Processes to Document Its Analyses and Decisions Related to Pursuing Discretionary Grant Funding for Workforce Investment

The state board lacks a formal process for identifying and evaluating grant opportunities and does not track or consistently document the results of its efforts. While EDD and the state board both search for and evaluate grant opportunities related to workforce investment, the state board generally lacks documentation of its efforts. Only after making inquiries of EDD were we able to obtain documentation supporting the state board's decisions to forgo two grant opportunities for which it was eligible. Specifically, the state board provided documentation indicating that it considered applying for the grants but could not explain why it ultimately chose to forgo these opportunities. By failing to track and document its efforts, the state board will have difficulty demonstrating that it has evaluated the merits of pursuing grant funding related to workforce investment.

The state board does not have a formal process in place to identify, evaluate, and document its decisions related to grant opportunities. According to its chief of operations (operations chief), the state board has historically been responsible for making high-level policy recommendations, and EDD has been responsible for program administration activities. He further said it was a natural expectation that EDD would be responsible for seeking federal grant opportunities, given that all federal funds the state board receives must flow through EDD. However, he acknowledged that since June 2013, the state board has taken a more proactive and collaborative role with EDD in identifying, analyzing, and applying for federal grant opportunities. For example, the state board's assistant director for workforce innovation (assistant director) stated that several staff members research potential grant opportunities. Additionally, the assistant director and EDD's Workforce Services Division chief told us that the state board and EDD are in the process of formalizing policies for collaborating

When EDD does not follow its process, it risks missing grant opportunities or may be unable to demonstrate that it has considered every opportunity that would help the State maximize federal funding for workforce investment.

In addition to lacking a formal process, the state board lacked documentation explaining why it did not apply for two grants identified on EDD's tracking sheet for which the state board was eligible.

on grant research activities, which they plan to finalize by the end of December 2015. This process will delineate the roles and responsibilities of both entities, including the steps each will take to pursue grant opportunities.

This planned action is in line with a Government Finance Officers Association (GFOA)⁵ best practice that recommends that governments develop a formal grants policy addressing the steps to take before applying for or accepting grants. According to GFOA's *Establishing an Effective Grants Policy* best practice, an effective grants policy maximizes the benefits and minimizes the risks of grant funding by providing guidance to staff regarding how to perform associated processes and procedures. One recommended element of a grants policy is a requirement to assess the extent to which a grant is consistent with the government's mission, strategic priorities, and/or adopted plans.

In addition to lacking a formal process, the state board lacked documentation explaining why it did not apply for two grants identified on EDD's tracking sheet for which the state board was eligible. When we inquired with the state board regarding these grants, the assistant director said the state board does not have a method for documenting grants it has researched or the reasons it decided to forgo particular opportunities. In the first instance, we noted during our review of EDD's tracking sheet that the state board was responsible for taking the lead on pursuing the Advanced Manufacturing Jobs and Innovation Accelerator Challenge grant. This grant provided funding for competitive, high-potential regional partnerships that accelerate innovation and strengthen capacity in advanced manufacturing. The operations chief explained that the state board did not pursue this grant because at the time it was fully immersed in the completion of its strategic plan and the grant was for a relatively small amount for a large state such as California, but he could not provide documentation related to the state board's decision not to apply. However, after gathering further documentation from EDD's division, we found that the state board, along with EDD, had signed a letter pledging support for the East Bay Area Advanced Manufacturing Medical/Biosciences Pipeline for Economic Development. This regional partnership in fact received an award of \$2.2 million for this grant.

In another case, the state board was eligible to apply for the Veteran's Workforce Investment Program grant but could provide no documentation of its evaluation of the grant or its decision to forgo the opportunity. The operations chief provided some emails

⁵ The GFOA represents public finance officials throughout the United States and Canada. Its mission is to enhance the professional management of governmental financial resources by identifying, developing, and advancing financial strategies, policies, and practices.

related to the state board's and California Department of Veterans Affairs' interest in the grant, but explained that the opportunity came up after EDD's grants unit was eliminated, as we discuss in the Introduction. Specifically, the operations chief explained to other state board personnel in a May 2012 email that the state board would most likely have to draft the grant proposal itself, since EDD no longer had a grant solicitation unit. However, the operations chief could not provide additional documentation related to this effort. Only after gathering further documentation from EDD's Fiscal Programs Division were we able to determine that the state board had decided against applying for the grant and instead to provide support to a local board that intended to apply for the grant. Nevertheless, the state board was unable to provide us with this information. Without a formal grant policy in place to track and document its efforts, the state board will have difficulty demonstrating that it has evaluated the merits of pursuing federal grant funding related to workforce investment.

Recommendations

To ensure that its grant-seeking process is effective in considering grant opportunities related to workforce investment, EDD should update its grant identification and analysis procedures by December 31, 2015, to include the following:

- Identification of the appropriate level of management or staff to analyze and document the factors considered in pursuing or forgoing grant opportunities.
- Documentation of grant analyses, including factors considered in pursuing or forgoing grant opportunities.
- Documentation of decisions related to pursuing or forgoing grants.
- A method for ensuring that the process is consistently implemented.
- Training of appropriate management or staff about EDD's grant-seeking process.

To ensure that the State maximizes federal funding opportunities related to workforce investment, EDD and the state board should formalize their collaborative grant-seeking procedures by December 31, 2015, to clearly define their respective roles and responsibilities in the grant-seeking process.

To ensure that the state board assesses the merits of pursuing federal funding for workforce investment programs in California, it should establish procedures by December 31, 2015, that include, at a minimum, the following:

- The methods it will use to identify federal grant opportunities.
- The factors it will consider in its decisions to pursue or forgo applying for these grants.
- The process by which it will document its analyses of grants and its final decisions to either pursue or forgo grant opportunities.
- A method for ensuring that the process is consistently implemented.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: September 29, 2015

Staff: Jim Sandberg-Larsen, CPA, CPFO, Audit Principal
Angela Dickison, CPA, CIA
Carol Hand

Legal Counsel: Joseph L. Porche, Staff Counsel

For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

California Labor and Workforce Development Agency



Edmund G. Brown Jr.
Governor

September 22, 2015

Elaine M. Howle*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle,

Thank you for the opportunity to respond to your audit report entitled "Follow-up - *Federal Workforce Investment Grants: The Employment Development Department Established Procedures for Seeking Discretionary Grants, but Needs to Strengthen Them.*"

As you know, the Employment Development Department (EDD) administers one of the largest public workforce systems in the world, providing both direct customer services and administrative support for various programs covered under what was formally the Workforce Investment Act and is now known as the Workforce Innovation and Opportunity Act. In doing so, EDD continues to focus on providing integrated services, enabling universal access, achieving increased accountability, supporting strong local board and private sector roles, and maintaining state and local flexibility. The EDD also must continue to satisfy the policy expectations of the Executive Branch and our federal control agencies related to our mission and responsibilities.

Regarding grant seeking, this is not an activity that is required of the Department; however, EDD agrees that updating its grant identification procedures and guidelines will help the Department better document its efforts to help maximize federal funding for workforce investment.

The EDD has and will consistently act to further improve upon the quality and effectiveness of its services when and where it has the resources and authority to do so. Leadership and management remain dynamic and responsive; therefore, guidelines and procedures will change over time to reflect how grant activities are managed. As noted in this audit, the decisions that were made by EDD all had merit. This report only identified issues related to maintaining the documentation of those decisions or steps. We are pleased that the report validates that the decisions made by program experts on whether or not to seek grant opportunities were appropriate.

The EDD agrees to implement the recommendations cited in your September 2015 draft report by December 31, 2015. Implementation of the recommendations will



* California State Auditor's comments appear on page 21.

Elaine M. Howle

September 22, 2015

Page two

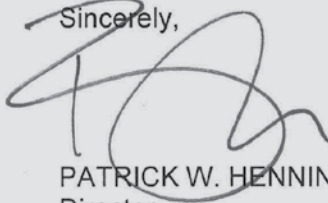
ensure the grant seeking process is effective in considering grant opportunities related to workforce investment by updating the grant identification and analysis procedures specified in the report. In addition, to ensure the State maximizes federal funding opportunities related to workforce investment, EDD will continue to work collaboratively with the California Workforce Investment Board to formalize grant seeking procedures.

Additionally, EDD respectfully requests consideration of the following clarifications as you finalize your draft report:

- ①② 1. Page 13, first paragraph; does not reflect the fact that EDD staff can only make a preliminary decision that has to be ratified by the California Workforce Investment Board and also, in some cases, with the Labor and Workforce Development Agency.
- ③ 2. Page 18, last sentence in the first paragraph; the National Farmworker Jobs Program grant solicitation that the Department of Labor did in 2013 was an aberration because it automatically renewed funding for most of its grantees. In fact, the same five California organizations that have been the longstanding recipients of these funds received a total of \$18,907,060 in Program Year (PY) 2013, \$19,947,000 in PY 2012, \$19,380,015 in PY 2014, and \$19,380,015 in PY 2015.
- ④ 3. The report uses the word "discretionary" inconsistently with how it is used in the workforce system. In this report, it should not be interpreted as the grant activity specifically related to the Governor's "Discretionary" funds. In this audit, it is referring to other "additional" funding.

We thank the California State Auditor staff for their professionalism and openness during this audit. If you have any questions with the update, please contact me at (916) 654-8210, or Gregory Riggs at (916) 654-7014.

Sincerely,



PATRICK W. HENNING JR.
Director

cc: David Lanier, Labor and Workforce Development Agency
Greg Riggs, MIC 76

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE EMPLOYMENT DEVELOPMENT DEPARTMENT

To provide clarity and perspective, we are commenting on the response to our audit from the Employment Development Department (EDD). The numbers below correspond to the numbers we have placed in the margin of EDD's response.

While preparing our draft report for publication, page numbers shifted. Therefore, the page numbers that EDD cites in its response do not correspond to the page numbers in our final report.

We thank EDD for providing this clarification. Following our discussion during the exit conference on September 3, 2015, we asked EDD to clarify what happens following its decision about whether it should apply for a grant opportunity. We modified the description of the EDD process shown on page 9 to explain the California Workforce Investment Board's role in ratifying the decision.

Information on the level of automatically renewed funding for certain grantees is beside the point. Although some grantees may receive automatically renewed funding, the focus of our audit was competitive grant opportunities such as the 2013 National Farmworker Jobs Program grant we discuss at page 14.

Our usage of the term discretionary grants is consistent with the federal government's definition of discretionary grants. As we explain on page 7 of the report, discretionary grants are generally awarded by the federal government on a competitive basis. Such grants, made by the federal government not the governor, were the focus of this report.

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Michael Rossi, Chair ■ **Tim Rainey, Executive Director** ■ **Edmund G. Brown, Jr., Governor**

California Workforce Development Board
800 Capitol Mall, Suite 1022
Sacramento, CA 95814
September 15, 2015

Ms. Elaine M. Howle, CPA
State Auditor
California State Auditor
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Subject: Follow-up – Federal Workforce Investment Grants #2015-508 September 2015

Dear Ms. Howle:

The California Workforce Development Board (State Board) agrees with the CSA's recommendations pertaining to the State Board and agrees that implementing the recommendations will enable the State Board to maximize federal workforce investment funding opportunities using procedures that analyze and assess the merits of each opportunity.

Recommendation One: To ensure the State maximizes federal funding opportunities related to workforce investment, EDD and the State Board should formalize their collaborative grant seeking procedures by December 31, 2015 to clearly define the roles and responsibilities of both EDD and the State Board in the grant seeking process.

The State Board agrees with CSA's recommendation. The State Board is in the process of finalizing with EDD the specific roles and responsibilities of each agency related to coordinated grant seeking procedures and these procedures will be in place by December 31, 2015.

Recommendation Two: To ensure the State Board assesses the merits of pursuing federal funding for workforce investment programs in California, it should establish procedures by December 31, 2015 that include, at a minimum the following:

- **The methods it will use to identify federal grant opportunities.**
- The factors it will consider in its decision to pursue or forego applying for these grants
- The process by which it will document its analysis of grants and its final decision to either pursue or forego grant opportunities.
- A method for ensuring that the process is consistently implemented.

The State Board agrees with CSA's recommendation. The State Board will utilize the best practices identified by the Government Finance Officers Association to establish and implement procedures to identify, analyze, pursue or forego grant opportunities by December 31, 2015.

Should you have any questions or need additional information please do not hesitate to contact the State Board's Chief of Operations Doug Sale at 916-657-1445.

Sincerely,



Tim Rainey
Executive Director