

## Federal Workforce Investment Act

More Effective State Planning and Oversight  
Is Necessary to Better Help California's Job Seekers  
Find Employment

March 2012 Report 2011-111



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March 27, 2012

2011-111

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

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor (state auditor) presents this audit report concerning the State's administration of the federal Workforce Investment Act of 1998 (WIA) funding. Because the State received the largest amount of funding for Title I of WIA and because Title I establishes the workforce investment system, we chose to focus our audit on this title. In California the Office of the Governor, the California Workforce Investment Board (state board), the Employment Development Department (EDD), and local workforce investment boards (local boards) are responsible for administering different facets of WIA.

This report concludes that the state board has failed to develop a strategic workforce plan for California, as required by state law since 2006. In addition, the state board has failed to maintain a majority of members who represent businesses throughout the State, a situation that violates the requirements of WIA and that may prevent the state board from making recommendations that adequately represent California's business community. Finally, although it has been developing relationships with other entities in an effort to improve the statewide workforce investment system, the state board does little to ensure the nonduplication of services that program participants receive because it did not begin reviewing the local boards' plans until program year 2011 (the U.S. Department of Labor's program year runs from July 1 through June 30), and its review did not include steps to identify unnecessary duplication of services.

To review the local boards' plans and the activities funded by WIA, the state board needs performance measures and data from workforce investment activities around California. EDD could not provide those entities involved in workforce investment programs and activities with sufficient data to develop performance measures specifically for California because the primary function of its Job Training Automation system and its new Web-based system is to meet federal reporting requirements. In addition, because EDD did not always demonstrate its compliance with WIA provisions when awarding a certain type of funding to local boards and a community-based organization, it increased the State's risk of possibly losing WIA funding. Finally, EDD is not maximizing the federal funding opportunities available for workforce investment, and thus it is not availing itself of additional funds the State can use to help job seekers obtain employment. We noted six missed opportunities for federal grants that could have provided up to \$10.5 million in additional funds for the workforce investment efforts of the State.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

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## Summary

### Results in Brief

The State of California’s oversight of programs and activities funded by the federal Workforce Investment Act of 1998 (WIA) has multiple shortcomings that involve those entities charged with implementing WIA. In California the Office of the Governor (governor’s office), the California Workforce Investment Board (state board), the Employment Development Department (EDD), and local workforce investment boards (local boards) are responsible for administering different facets of WIA. The U.S. Congress intended WIA as the framework for a unique national workforce preparation and employment system designed to meet both the needs of the nation’s businesses and the needs of job seekers; however, the state board has failed to develop a strategic workforce plan for California, as required by state law since 2006. Further, the state board has not included in its membership the required majority of members who represent the State’s business community. Federal and state laws also direct the state board to ensure the coordination of WIA programs and activities, but the state board has not taken steps to identify any unnecessary duplication.

Although state law does not set an explicit deadline for completing the strategic workforce plan, it does envision updates to the plan every five years. In explaining why the state board had not developed the plan, the acting executive director offered several reasons, among them that the previous administration did not require it.<sup>1</sup> However, we did not find these reasons sufficient to absolve the state board of its responsibility under state law. Without a strategic workforce plan, the State cannot ensure that its workforce investment system provides life-long learning for all Californians, promotes self-sufficiency, links education and training to economic development, and prepares California to compete successfully in the global economy as the Legislature intended.

Furthermore, the state board has failed to maintain in its membership a majority of members who represent businesses throughout the State, a situation that violates the requirements of WIA and that may prevent the state board from making recommendations that adequately represent California’s business community. As of February 2012 only 10 of the 26 members, or 38 percent, of the state board membership represented the business sector, instead of a majority of the members as WIA requires.

<sup>1</sup> When we performed our audit fieldwork, the state board’s chief operating officer was its acting executive director. In January 2012 the governor appointed a new executive director. For clarity in this report, we refer to the state board’s chief operating officer as the acting executive director.

### Audit Highlights . . .

*Our audit of the Workforce Investment Act of 1998 (WIA) highlighted the following:*

- » *The California Workforce Investment Board (state board) has not always complied with federal and state laws.*
  - *Although required by state law since 2006, the state board failed to develop a strategic workforce plan for California.*
  - *Only 38 percent of the state board membership represented the business sector as of February 2012, instead of a majority as WIA requires.*
  - *It has not taken steps to identify unnecessary duplication among WIA programs and activities.*
- » *The Employment Development Department (EDD) can improve its administration of WIA funding.*
  - *Because EDD did not always demonstrate its compliance with WIA provisions when awarding a certain type of funding to local workforce investment boards and a community-based organization, it increased the State’s risk of losing WIA funding.*
  - *It is not maximizing the federal funding opportunities available for workforce investment—we noted six missed opportunities for federal grants that could have provided up to \$10.5 million in additional funds for the workforce investment efforts in the State.*

According to one of its undersecretaries, the California Labor and Workforce Development Agency (Labor Agency), to which both the state board and EDD report, is aware of the need to appoint additional business members. The Labor Agency is working with the state board's staff and the governor's office to solicit and recruit new members to the board as soon as possible.

Our audit also revealed that the state board is not fulfilling its responsibility to identify unnecessary duplication among WIA programs and activities. Both WIA and state law require the state board to assist the governor in developing and continuously improving the statewide workforce investment system by developing links to assure coordination and nonduplication among workforce programs and activities. The cornerstone of the State's workforce investment system is *one-stop service delivery*, which unifies numerous training, education, and employment programs into a single system in each community so that individuals can have seamless access to workforce investment services. Although the state board has been developing relationships with other entities, it does little to ensure the nonduplication of services that program participants receive via the one-stop delivery system. According to the acting executive director, it is the state board's position that EDD is in the best position to evaluate the nonduplication of services to program participants because it works directly with local boards and service providers. Nevertheless, if the state board were exercising its legal authority to review the local boards' plans, it would be able to identify, and to reduce if necessary, any duplication of services to program participants. However, the state board did not begin reviewing the local boards' plans until program year 2011.<sup>2</sup> Moreover, its review of the local plans did not include steps to identify unnecessary duplication of services.

To review the local boards' plans and the activities funded by WIA, the state board needs performance measures and data from workforce investment activities around California. EDD could not provide those entities involved in workforce investment programs and activities with sufficient data to develop performance measures specifically for California because the primary function of its Job Training Automation (JTA) system is to meet federal reporting requirements. In January 2011 EDD entered into a more than six-year agreement with a vendor to replace its JTA system with a Web-based system that supports the business requirements of the State's one-stop delivery system. EDD stated that the primary function of the new system is also to meet federal reporting requirements. Because the new system is an off-the-shelf system

<sup>2</sup> The U.S. Department of Labor's program year runs from July 1 through June 30.

and significant changes would likely be quite costly, EDD believes the State will have limited capability for capturing additional data elements for state-specific reporting requirements.

However, the State's ability to capture additional data elements for state-specific performance measurements becomes increasingly important because of recent legislation. Legislation enacted in October 2011 provides the State with an opportunity to link education and training to economic development and to develop additional performance indicators that determine if its training programs are effective. In addition, other legislation enacted in October 2011 requires the governor to establish, through the state board, standards for certification of high-performance local boards by January 1, 2013. The law requires the state board, in consultation with representatives from the local boards, to initiate a stakeholder process to determine the appropriate metrics and standards for high-performance certification. The state board most likely will need state-specific data to develop and implement the metrics under this law. EDD stated it will begin using the Web-based system in July 2012 and, given the current project schedule for the new system, it will be able to analyze proposals for capturing new data elements in December 2012. Until EDD fully implements the new system and the State ensures that it has an effective process for approving and adding state-specific data elements to the system, the State continues to be very limited in its ability to develop and implement state-specific performance measures for WIA programs and activities.

In addition, because EDD did not always demonstrate its compliance with WIA provisions when awarding a certain type of funding to local boards and a community-based organization, it increased the State's risk of possibly losing WIA funding. Specifically, WIA requires EDD to award *additional assistance* funds to local areas that experience natural disasters, mass layoffs, plant closings, or other dislocation events when these events substantially increase the number of unemployed individuals. Our review of 17 projects identified seven for which EDD awarded a total of \$16.7 million in additional assistance funds to local boards and a community-based organization even though these local entities did not refer to specific dislocation events in their applications. For example, EDD awarded \$7.5 million in additional assistance funds to a community-based organization. In its applications, this organization stated it would provide services to migrant and seasonal farm workers but failed to identify specific dislocation events. The chief of the workforce services division stated that he believes EDD is in compliance with WIA's additional assistance requirements. The chief acknowledged that the local boards could have more fully detailed or articulated specific events in their applications, but he stated he was confident

that the local boards applying for the additional assistance funds had a demonstrated need. Nevertheless, because the local boards and the community-based organization did not identify specific dislocation events that led to a substantial increase in the number of unemployed individuals in their areas, EDD is unable to demonstrate that its awards for the seven projects met WIA's requirements.

Finally, EDD is not maximizing the federal funding opportunities available for workforce investment, and thus it is not availing itself of additional funds the State can use to help job seekers obtain employment. Although EDD has a written policy applicable to grant applications, this policy is outdated and provides only high-level direction. The deputy director of EDD's workforce services branch stated that he directed staff to proactively identify and apply for all applicable grants relevant to workforce development from appropriate agencies, but we noted six missed opportunities for federal grants that could have provided up to \$10.5 million in additional funds for the workforce investment efforts of the State. Because EDD does not have a grant review and approval process that documents its identification of grant opportunities and its decisions related to pursuing such opportunities, we were unable to substantiate EDD's stated reasons for foregoing grant opportunities.

### **Recommendations**

To ensure that the state board promptly develops a strategic workforce plan, the Legislature should consider amending the pertinent statutes to establish a due date for the plan.

To assist the governor in the development, oversight, and continuous improvement of California's workforce investment system, the state board should collaborate with state and local entities involved in workforce investment programs or activities to develop and implement a strategic workforce plan, as state law requires. The strategic plan should include, at a minimum, the following attributes:

- State-specific performance measures for evaluating the efficiency and effectiveness of activities and programs funded by WIA.
- Procedures for approving the addition of data elements to EDD's Web-based system and for the exchange of data between EDD and the state board to facilitate the development and implementation of performance measures that are specific to California.



To ensure that the state board meets WIA requirements related to the composition of the board, the Labor Agency should continue working with the governor's office to identify and appoint to the board—as soon as possible—enough representatives from businesses in California to constitute a majority of the board's members.

To ensure the coordination and nonduplication of services to program participants, the state board should continue to exercise its legal authority to review the local boards' plans.

To assist the state board and other entities involved in workforce investment programs and activities in developing and implementing performance measures specific to California, EDD should ensure that it works with the state board to develop procedures for approving the addition of data elements to its Web-based system and for the exchange of data between EDD and the state board.

To comply with WIA requirements and eliminate the State's risk of losing funds, EDD should award additional assistance funds only to local boards or community-based organizations that clearly demonstrate that their local areas experience natural disasters, mass layoffs, plant closings, or other dislocation events when such events substantially increase the number of unemployed individuals.

To ensure it maximizes federal grant opportunities, EDD should update and implement its written policy related to pursuing such funding.

### **Agencies Comments**

The Labor Agency, state board, and EDD agreed with our recommendations.

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## Introduction

### Background

Like the rest of the nation, the State of California is in a severe economic downturn. The *Governor's Budget Summary for Fiscal Year 2012–13* (summary) states that although growth has occurred in California's manufacturing and in the exporting of computers, electronics, and electronic machinery, the State faces an uneven economic recovery because growth in industries such as agriculture, construction, and retail trade have not kept pace with inflation. Further, figures released by the Department of Finance (Finance) show that the State's unemployment rate since 2009 has increased dramatically although it has been improving more recently. Specifically, Finance reported that California's unemployment rate has been at least 10 percent since February 2009, and it peaked at 12.5 percent from September 2010 through December 2010. Most recently, Finance reported that California's unemployment rate had dropped to 10.9 percent for January 2012. However, the summary states that California's unemployment rate is not expected to drop below 10 percent until 2015.

### Workforce Investment Act of 1998

The U.S. 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, according to federal regulations, WIA reforms federal job training programs and creates a new, comprehensive workforce investment system. WIA embodies seven key principles, including streamlining services for individuals and businesses, providing individuals with universal access to training and employment programs, and increasing state and local entities' accountability for workforce investment programs. WIA also provides state and local entities with the flexibility and authority to implement innovative, comprehensive workforce investment systems tailored to the particular needs of local and regional labor markets. The cornerstone of the workforce investment system is *one-stop service delivery*, an approach that unifies numerous training, education, and employment programs into a single system in each community so that individuals can have seamless access to workforce investment services.

WIA consists of five major parts, called *titles*, and each title has a distinct purpose. Figure 1 on the following page outlines the purpose of each title.

**Figure 1**  
**Purpose of the Five Titles That Compose the Federal Workforce Investment Act of 1998**



Sources: The federal Workforce Investment Act of 1998 (Public Law 105-220); and the Web sites for Labor, the California Department of Education, and the California Department of Rehabilitation.

The programs authorized by three of its titles existed before WIA's enactment in 1998. Specifically, Title II replaced the federal Adult Education Act of 1966 and the National Literacy Act of 1991, and Title IV amended the federal Rehabilitation Act of 1973. The California Department of Education (Education) administers the State's Title II Adult Education and Literacy programs, while the California Department of Rehabilitation (Rehabilitation) administers the State's Title IV programs. Representatives for Education and Rehabilitation stated that the administrative responsibilities for the Title II and Title IV programs did not change upon WIA's enactment. The representatives also stated that their departments do not report to the state agencies responsible for implementing WIA Title I. Finally, Title III amended the Wagner-Peyser Act of 1933. The Employment Development Department (EDD) administers the State's Wagner-Peyser programs.

For fiscal years 2008–09 through 2010–11, the federal government provided California with about \$3 billion in funding for WIA programs and activities. For these three fiscal years, the State received \$1.7 billion for Title I, \$233.8 million for Title II's Adult Education—Basic Grants to States program, \$286 million for Title III's Employment Service/Wagner-Peyser Funded Activities program, and \$757 million for Title IV's Rehabilitation Services—Vocational Rehabilitation Grants to States program. Because Title I establishes the workforce investment system for the purpose described in Figure 1, and because the State received the largest amount of funding from the federal government for this title, we chose to focus our audit on Title I.

### **Administration of WIA Programs and Activities in California**

WIA requires each state's governor to establish a state workforce investment board, to submit a state workforce investment plan (WIA state plan), to designate local workforce investment areas (local areas) within the State, to oversee the creation of local workforce investment boards (local boards), and once every two years, to certify one local board for each local area in the State.

In California, two entities within the Labor and Workforce Development Agency play key roles in implementing WIA's Title I: the California Workforce Investment Board (state board) and EDD. For example, the state board is responsible for assisting the governor in creating the WIA state plan, for developing and continuously improving a statewide system of activities funded by WIA or carried out through a one-stop delivery system, for developing allocation formulas for the distribution of funds to local areas for adult employment and training activities and

youth activities, and for developing and continuously improving comprehensive performance measures to assess the effectiveness of the State's workforce investment activities.

WIA sets forth the requirements for the state board's composition and requires that business representatives constitute a majority of the state board's membership. According to the state board's acting executive director, as of February 2012, 26 members represented the community in areas including business, labor, and education. The state board is an advisory body; although it adopts workforce-related policies, it has no authority to direct the activities of EDD. Under state law, EDD has the authority to administer the requirements of WIA, including establishing accounting, monitoring, auditing, and reporting procedures and criteria to ensure California's compliance with WIA's objectives and requirements.

For the purposes of delivering workforce investment services, California has 49 local areas, which are delineated in Figure 2. Each local area is governed by a local board appointed by its chief local elected official, and the local board sets policy for the statewide workforce investment system within the local area. WIA sets forth the requirements for the local boards' composition and requires that their membership also consist of a majority of representatives of businesses in the local area. WIA specifies that the local boards and their chief elected officials are responsible for, among other things, developing the five-year local workforce investment plan and conducting oversight of the one-stop delivery system, youth activities, and employment and training activities; for selecting one-stop operators such as postsecondary educational institutions, employment service agencies, and community-based organizations; for selecting eligible youth service providers; and for negotiating and reaching agreements on local performance measures.

### **WIA's Title I Funding**

The U.S. Department of Labor (Labor) administers WIA at the federal level and provides funding to states that implement WIA programs. Title I funding targets three categories of workers: adult, dislocated, and youth. *Adult workers* are individuals between the ages of 22 and 72. *Dislocated workers* are individuals who fall into one of three general groups. Some dislocated workers have been terminated or laid off—or they have received notices of termination or layoff—but they are unlikely to return to their previous industries or occupations, and they are eligible for or have exhausted their entitlements to unemployment compensation. Second, some have been self-employed but are now unemployed because of general economic conditions in their communities or because of natural disasters. Third, some dislocated workers are

**Figure 2**  
Map of California's 49 Local Workforce Investment Areas as of July 1, 2011



Source: Employment Development Department.

displaced homemakers.<sup>3</sup> *Youth workers* are low-income individuals between the ages of 14 and 21 who meet at least one of the following criteria: they are deficient in basic literacy skills; have dropped out of school; are homeless, runaways, or foster children; are pregnant or parents; are offenders who are or have been subject to any stage of the criminal justice process; or require additional help to complete educational programs or to secure and hold employment. As Appendix A indicates, for fiscal years 2008–09 through 2010–11, California received \$1.7 billion in federal funding for these three categories of workers.

The federal government generally uses a formula rather than an application process to allot Title I funding to the states (formula-based funding). For example, one component of the formula includes a comparison of the relative number of unemployed individuals in areas of substantial unemployment in each state to the total number of unemployed individuals in areas of substantial unemployment in all states. Federal regulations require states that receive Title I formula-based funding for adult and dislocated workers to use the funds to provide, through the one-stop delivery system, three types of services: *core*, *intensive*, and *training*. *Core services* must include a determination of an individual's eligibility to receive assistance; outreach, intake, and orientation to the information and other services available through the one-stop delivery system; initial assessments of skill levels, aptitudes, abilities, and supportive service needs; and job search and placement assistance or career counseling. An individual must receive at least one core service before receiving *intensive services*, which may include comprehensive, specialized assessments of the individual's skill level and service needs using diagnostic tests and in-depth interviews or evaluations; the development of an individual employment plan; group or individual career counseling; or short-term prevocational services to develop communication, interviewing, learning, and other skills. Further, an individual must receive at least one intensive service before obtaining *training services*, which may include occupational skills training, on-the-job training, skill upgrading and retraining, job readiness training, and customized training conducted with a commitment from employers.

WIA also requires the federal government to allot funding to each state to assist the state—and to enable the state to assist local areas—in providing workforce investment activities for eligible youth in the state and in the local areas. Federal regulations require the establishment of a youth council as a subgroup within each

<sup>3</sup> WIA defines the term *displaced homemaker* as an individual who has been providing unpaid services to family members in the home, who has been dependent on the income of another family member but is no longer supported by that income, and who is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment.



local board. Youth councils are responsible for coordinating youth activities in a local area, developing portions of the local plan regarding eligible youth, recommending eligible youth service providers, overseeing eligible providers of youth activities in the local area, and taking on other duties authorized by the chair of the local board. In addition, the regulations state that local programs must make the following services available to youth participants: tutoring, study skills training, and instruction leading to secondary school completion; alternative secondary school offerings; summer employment opportunities directly linked to academic and occupational learning; paid and unpaid work experiences, including internships and job shadowing; occupational skill training; leadership development opportunities; supportive services; adult mentoring; follow-up services; and comprehensive guidance and counseling, including drug and alcohol abuse counseling. The regulations also describe the connection between the youth program and the one-stop delivery system. Specifically, the regulations state that these connections may include those that facilitate the coordination and provision of youth activities, links to the job market and employers, access for eligible youth to local youth programs and the services described earlier, and other activities designed to achieve the purposes of the youth program and youth activities.

WIA requires the governor of each state to reserve for dislocated workers not more than 25 percent of the formula-based funding to provide statewide rapid-response activities that include planning and delivering services to enable dislocated workers to transition to new employment as quickly as possible following a permanent closure, a mass layoff, or a natural or other disaster resulting in a mass job dislocation. Rapid-response activities must specifically include such activities as immediate and on-site contact with the employer, with representatives of the affected workers, and with the local community to assess, among other things, layoff plans and the schedule of the employer, the potential for averting the layoff, and the background and probable assistance needs of the affected workers. These activities must also include providing information and access to unemployment insurance compensation benefits, comprehensive one-stop delivery system services, and employment and training activities. Finally, rapid-response activities must assist local boards and officials in developing a coordinated response to the dislocation event.

Rapid-response activities also include providing additional assistance to the local areas in the states that experience natural disasters, mass layoffs, plant closings, or other dislocation events when such events substantially increase the number of unemployed individuals. Local areas must use the additional assistance to provide direct services to participants such as the core, intensive, and training services described previously if adequate local funds are not available to assist the dislocated workers.

### Performance Measures for Evaluating States' and Local Areas' Achievements Under the Workforce Investment Act of 1998

Core indicators of performance that quantify the results of employment and training activities for adults and of activities for eligible youths age 19 through 21:

- Percentage of program participants who have entered unsubsidized employment.
- Percentage of participants retained in unsubsidized employment for six months after entry into the employment.
- Participants' average unsubsidized earnings six months after they enter employment.
- Percentage of participants who have entered unsubsidized employment and who attain recognized credentials relating to achievement of educational skills or percentage of eligible youths age 19 through 21 who enter postsecondary education, advanced training, or unsubsidized employment.

Core indicators of performance that quantify the results of activities for eligible youths age 14 through 18:

- Percentage of eligible youths who have attained basic skills and appropriate work readiness or occupational skills.
- Percentage of eligible youths who attained secondary school diplomas and recognized equivalents.
- Percentage of eligible youths who were placed and retained in postsecondary education, advanced training, military service, employment, or qualified apprenticeships.

Indicators of performance for activities provided to adults and youths:

- Customer satisfaction for participants receiving services from workforce investment activities as measured by responses to surveys.
- Customer satisfaction for employers as measured by responses to surveys.

Sources: The Workforce Investment Act of 1998 (WIA) and Training and Employment Guidance Letter 7-99, issued March 3, 2000, by the U.S. Department of Labor.

Note: According to WIA, a state may identify additional performance measures for workforce investment activities in its state workforce investment plan.

Finally, WIA provides discretion to each state's governor to reserve up to 15 percent of the formula-based funding for statewide workforce investment activities for adult, dislocated, and youth workers. Under WIA, states cannot use more than one-third of this discretionary funding for program administration. California's WIA state plan for program year 2011, which runs from July 1, 2011, through June 30, 2012, identifies the governor's three priorities for the 15 percent funding as follows: high-wage and high-growth jobs, advancing workers with barriers to employment, and industries with statewide labor shortages. Two examples of programs receiving this funding are the following:

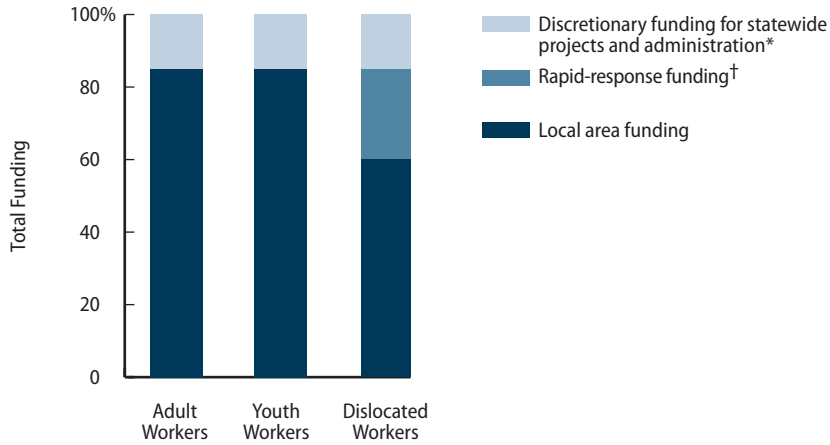
- **The California New Start Prison-to-Employment Program.** The services under this program include in-prison vocational and employment skills training and post-prison employment placement services. The California Department of Corrections and Rehabilitation helps to administer this program.
- **The Nurse Education Initiative.** The goals of this initiative include increasing the number of students enrolled in nursing programs and increasing student retention in these programs. The California Community Colleges Chancellor's Office, among others, received funding to administer this initiative.

For the 2011 program year, the federal government reduced the allotments to the states for the governor's discretionary funding from 15 percent to 5 percent. According to an October 2011 training and employment guidance letter from Labor, the states may use a maximum of 5 percent of their adult, dislocated worker, and youth allotments for statewide activities. Figure 3 shows the proportion of formula-based funding for each worker category.

### Measuring the Performance of Title I Activities

WIA establishes a performance accountability system to assess the effectiveness of states and local areas in achieving continuous improvement of Title I workforce investment activities. As part of the accountability system, WIA identifies seven core indicators of performance and two customer satisfaction indicators, which the text box describes.

**Figure 3**  
**Proportions of Formula-Based Funding Provided Under Title I of the Federal Workforce Investment Act of 1998**



Sources: The federal Workforce Investment Act of 1998 (WIA) and the U.S. Department of Labor's Summary of Workforce Development Provisions of WIA.

\* Beginning in program year 2011, the federal government reduced the proportion of discretionary funding for statewide projects and administration for all worker categories from 15 percent to 5 percent. Therefore, for the adult and youth worker categories, the proportion for the local area funding will increase to 95 percent, while the proportion for the local area funding for the dislocated worker category will increase to 70 percent.

† According to a policy directive issued by the Employment Development Department, California divides the 25 percent rapid-response funding equally between rapid response and additional assistance.

In 2006 Labor issued a policy that established one set of six *common measures* for states to use for both reporting purposes and for WIA's performance accountability system.<sup>4</sup> Three common measures apply to adults: employment entry, employment retention, and average earnings. Three other common measures apply to youths: placement in employment or education, attainment of a degree or certificate, and literacy and numeracy gains. The policy outlines the methodology for calculating each of the six common measures. For example, the employment entry rate for adults is calculated by dividing the number of adult participants employed in the first calendar quarter after the calendar quarter in which those participants left the WIA program by the number of adult participants who left the program during the quarter. Since 2007 Labor has granted waivers to California that allow the State to implement and report only these six common measures.

<sup>4</sup> Labor implemented the *common measures* to establish common performance measures for programs with similar goals. For example, Labor uses common measures to evaluate the performance of WIA Title I and Title III programs and non-WIA programs, such as the Trade Adjustment Assistance programs.

Labor and EDD negotiate annual levels of performance for the State to achieve based on the common measures. These levels of performance are expressed in percentages, with the exception of the average earnings, which are expressed in dollars. Similarly, EDD and local boards negotiate performance goals for the local boards to achieve based on the same common measures.

### Scope and Methodology

The Joint Legislative Audit Committee (audit committee) asked the California State Auditor (state auditor) to audit the State's administration of WIA funding. The state auditor was directed to include a review of the roles of the state board and EDD as well as two additional state entities that are administering WIA-funded programs. The state auditor was also directed to focus on areas such as oversight and monitoring, and whether measurable overarching goals and outcome indicators exist among the programs. The audit analysis that the audit committee approved contained seven objectives. The following table lists the seven objectives and the methods we used to address those objectives.

**Table 1**  
**Audit Objectives and the Methods Used to Address Them**

AUDIT OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant federal laws, such as the Workforce Investment Act of 1998 (WIA); regulations, such as the Code of Federal Regulations, Title 20, Part 660, et seq.; state laws, such as the California Unemployment Insurance Code and selected U.S. Department of Labor training and employment guidance letters.
2 Examine the role of the California Workforce Investment Board (state board). Determine whether the state board has oversight responsibilities for the administration of WIA funds. If so, determine how the state board ensures that the WIA funds are administered effectively.	<ul style="list-style-type: none"> <li>• Identified the state board's statutory responsibilities.</li> <li>• Interviewed officials at the state board.</li> <li>• Evaluated whether the state board met its statutory obligations.</li> <li>• Determined the methods the state board used to communicate changes in program protocol.</li> </ul>
3 Identify the level of state oversight conducted to ensure coordination and integration of activities among the entities that receive WIA funds.	<ul style="list-style-type: none"> <li>• Interviewed officials at the state board and the Employment Development Department (EDD).</li> <li>• Examined the relationships among the various state entities that provide workforce investment guidance and administration for programs funded by WIA Title I.</li> <li>• Identified examples that demonstrate the efforts by the state board and EDD to collaborate and build partnerships with the different entities involved in workforce investment programs and activities.</li> <li>• Reviewed the procedures used by the state board and EDD to evaluate the level of integration of activities among the entities that administer WIA funding.</li> <li>• Examined the methods used by the state board, EDD, the California Department of Corrections and Rehabilitation (Corrections), and the California Community Colleges Chancellor's Office (Chancellor's Office) to communicate program results and plan for future workforce investment services.</li> </ul>

AUDIT OBJECTIVE	METHOD
<p>4 Review and assess whether the State has established performance measures to evaluate the administration of WIA funds and whether these indicators exceed the requirements for performance measures set by the federal government. If so, determine whether the state entities selected for review have common goals and whether they use common measures to evaluate program performance.</p>	<ul style="list-style-type: none"> <li>• Developed an understanding of the performance measures required by the federal government and the ability for state entities to develop other indicators exceeding these requirements.</li> <li>• Examined the state board's efforts to develop and implement a performance <i>dashboard</i> that collects, aggregates, and displays performance data of local boards.</li> <li>• Explored whether the state board and EDD provided guidance to recipients of discretionary funding regarding the creation and implementation of performance measures that exceed federal requirements.</li> </ul>
<p>5 From a sample that includes EDD and two additional state entities chosen at the state auditor's discretion, determine the following:</p>	<p>As the Introduction notes, WIA's Title I establishes the workforce investment system, and the State received the largest amount of funding from the federal government for this title; therefore, we chose to focus our audit on Title I. Under Title I, other state entities receive discretionary funding from WIA. Documents provided by EDD show that besides individual universities or community colleges, only two other state entities—Corrections and the Chancellor's Office—received more than \$100,000 in funding from this source. We therefore chose to include these two state entities as part of our audit. In addition, we included the state board as part of this testing where appropriate.</p>
<p>a Identify the amount of WIA funds that each entity received for workforce development activities—such as business services, job training, career technical education, work support, job search, and job placement—for the past three fiscal years.*</p> <p>c Identify the programs that are administered and the services that are provided with WIA funds for each of the entities.</p> <p>d Identify the target population for each program and the number of participants who were served during the past three fiscal years.</p>	<ul style="list-style-type: none"> <li>• Interviewed officials at EDD, Corrections, and the Chancellor's Office.</li> <li>• Obtained and summarized financial information from the State Controller's Office, EDD, Corrections, and the Chancellor's Office.</li> <li>• Examined documents including annual reports; interagency agreements or memorandums of understanding among state entities, including the state board, EDD, Corrections, and the Chancellor's Office; and reviewed Web sites to obtain relevant program information.</li> </ul>
<p>b Determine how much oversight EDD and the other two entities perform regarding the WIA funds they administer.</p> <p>e Determine how the entities evaluate whether the programs and services provided to their respective target populations with WIA funds are meeting their participants' education, training, and employment needs.</p> <p>f Determine whether the entities have performance measures and outcome indicators that evaluate program effectiveness. If so, determine whether these measures also track labor market success.</p> <p>g For each entity, identify any policies and procedures used to ensure quality services and outcomes for business and worker participants in the WIA-funded programs.</p> <p>h Determine how each entity ensures that resources are allocated effectively and in compliance with relevant laws and regulations.</p>	<ul style="list-style-type: none"> <li>• Interviewed officials at EDD, Corrections, and the Chancellor's Office.</li> <li>• Reviewed the agreements between EDD and the two entities to determine roles and responsibilities regarding oversight and reporting of data.</li> <li>• Reviewed EDD's efforts to monitor the programs administered by Corrections and the Chancellor's Office, and determined whether WIA funding was allocated effectively and in compliance with laws and regulations.</li> <li>• Reviewed efforts by Corrections and the Chancellor's Office to monitor the program service providers.</li> <li>• Determined the methods used by the state board, EDD, Corrections, and the Chancellor's Office to determine how each entity measures program effectiveness.</li> <li>• Examined how officials at the state board, EDD, Corrections, and the Chancellor's Office defined quality services and if each entity had a mechanism to evaluate whether there is an appropriate match between a participant's skills, education, and experience with the employment attained.</li> </ul> <p>In fulfilling these objectives, we did not identify any audit findings related to Corrections or the Chancellor's Office.</p>

AUDIT OBJECTIVE	METHOD
6 Determine whether the agencies are maximizing federal funding opportunities. Identify any instances during the past three years where the State may have missed an opportunity to receive additional federal funding for workforce investment.	<ul style="list-style-type: none"> <li>• Identified grants related to workforce investment.</li> <li>• Identified grant funding that state entities received during fiscal years 2008–09 through 2010–11.</li> <li>• Interviewed EDD officials to determine why no funding was received for certain grants we identified.</li> </ul>
7 Review and assess any other issues that are significant to the State's administration of WIA funds.	<p>Examined EDD's allocation of "additional assistance" funds to local areas.</p> <ul style="list-style-type: none"> <li>• Determined whether EDD awarded additional assistance funds to local boards and community-based organizations only in instances when they identified dislocation events in their applications in accordance with WIA.</li> <li>• Interviewed officials at EDD to identify reasons why it awarded additional assistance funds to certain local boards and a community-based organization.</li> <li>• As part of our review of the additional assistance fund allocations, we relied on a list prepared by EDD to select allocations for testing. We tested the completeness of the list by comparing it to a haphazard selection of 29 records from EDD's files. We found no exceptions.</li> </ul>

Sources: The California State Auditor's analysis of audit request 2011-111 and the analysis of information and documentation identified in the table column titled *Method*.

\* For the purpose of this audit, we established fiscal years 2008–09 through 2010–11 as our audit period.

## Audit Results

### **The State Provides Insufficient Guidance for Administering Programs Funded by the Workforce Investment Act of 1998**

During our review of the State of California's implementation of programs funded by the federal Workforce Investment Act of 1998 (WIA), we found that the oversight of WIA programs and activities by the California Workforce Investment Board (state board) raised several concerns. For example, the state board has failed to provide sufficient guidance to its workforce development partners, such as the Employment Development Department (EDD) and the local workforce investment boards (local boards), because it has not produced a strategic workforce plan in accordance with state law. Without this plan, the State cannot ensure that its workforce investment system, which we describe in the Introduction, provides lifelong learning for all Californians, promotes self-sufficiency, links education and training to economic development, and prepares California to compete successfully in the global economy, as the Legislature intended. In addition, the state board has failed to maintain a membership that includes a majority of members who represent businesses throughout the State. This deficiency may prevent the board from making recommendations that adequately express the needs of California's business community. Finally, the state board could do more to fulfill its responsibilities to identify unnecessary duplication among WIA programs and activities. Without a comprehensive review of program services, the state board may not identify inefficiencies in program administration at the local level.

### ***The State Board Has Not Led the Development of California's Strategic Workforce Plan***

The state board has failed to develop a strategic plan for California's workforce in accordance with state law. Specifically, state law enacted in September 2006 requires the state board, in collaboration with state and local partners, to develop a strategic workforce plan to serve as a framework for the development of public policy, fiscal investment, and operation of all state labor exchange, workforce education, and training programs in order to address California's economic, demographic, and workforce needs. In addition, the state law requires updates to the strategic workforce plan at least every five years. Although the state law did not establish a due date for the state board to develop the initial strategic workforce plan, more than five years later, a plan still does not exist.

***As of February 2012 the state board had not developed its initial strategic workforce plan—more than five years after the enactment of the state law that requires it.***

The state board's acting executive director stated that as of February 2012, the state board had not developed such a strategic workforce plan. Further, according to the acting executive director, no laws or regulations guide the development of the strategic workforce plan, and the state board has not developed any guidance on what to include in the plan. The state board's acting executive director cited the following reasons for the board's delay in developing the strategic workforce plan. First, the strategic workforce plan is intended to be the framework for the WIA state workforce investment plan (WIA state plan) that under federal law the State must submit to the secretary of the U.S. Department of Labor (Labor) to outline the State's five-year strategy for its workforce investment system. In the absence of WIA reauthorization by the U.S. Congress, Labor has been granting unilateral one-year extensions to the original WIA state plan. Second, the state board wants to ensure that the WIA state plan will extend beyond a year. The strategic workforce plan will include new provisions required by Congress. Third, the previous governor and the previous administration's Labor and Workforce Development Agency (Labor Agency), to which the state board reports, did not require the state board to develop a strategic workforce plan. The state board is presently waiting for specific direction from the current administration regarding workforce development policy. Fourth, the board's lack of a finalized strategic workforce plan has not resulted in state-level ramifications.

We are not convinced that the reasons cited by the state board's acting executive director for the board's failure to complete a strategic workforce plan are sufficient to absolve the state board from its responsibilities under state law. Congress's decision to delay the reauthorization of WIA does not affect the state board's legal obligation to develop a strategic workforce plan. Further, as the body responsible for assisting the governor in the development, oversight, and continuous improvement of California's workforce investment system, we expect the state board to address its obligations under state law, in the absence of a repeal of this statutory requirement. Finally, the state board's acting executive director's belief that no state-level ramifications have occurred is unfounded.

We found that the state board and EDD, the entities responsible for implementing California's workforce investment system, could do more to assess the quality of the services provided. As part of our review, the California State Auditor was directed to identify the policies and procedures that state entities use to ensure *quality services* and outcomes for business and worker participants in the WIA-funded programs. Although the state board and EDD use the common measures we described in the Introduction to measure performance, they have differing



definitions of quality services. According to the acting executive director, the state board defines *quality services* as return on investment, such as dividing the increase in earnings that result from a program by the cost of the program. However, according to the deputy chief of EDD's program and technical assistance section, EDD gauges its ability to deliver quality services primarily on whether the State has met the federal common measures for employment entry, employment retention, and average earnings. Further, neither the state board nor EDD has a mechanism to evaluate whether an appropriate match exists between a participant's skills, education, and experience and the employment the participant attains. The deputy chief of EDD's information technology and program accountability section stated that EDD cannot track specific employment placement information because no requirement exists for the employers to provide the nature of the employment for each employee. The state board's acting executive director stated that the local entities are better suited to perform this function because of their proximity to the clients. Nevertheless, without the development of a strategic workforce plan that includes, for example, established definitions and measures of success, the State cannot ensure that it is continuously improving its workforce investment system.

In February 2012 Labor issued guidance informing states that instead of submitting the WIA state plan, they must submit an Integrated Workforce Plan (integrated plan). Labor's guidance organizes the integrated plan into three key sections: state workforce strategic plan, state operational plan, and integrated workforce plan assurances and attachments. The state workforce strategic plan section includes the governor's strategic vision for the State's economy and overarching goals for the workforce investment system, an economic and workforce information analysis, key strategies the State intends to implement, and specific quantitative targets for the desired outcomes and results for the programs included in the integrated plan. Although Labor did not mention an implementation date for the integrated plan, the acting executive director believes that California will be required to submit its plan as early as the spring of 2012. The acting executive director also stated that the state board was developing an outline that will incorporate the strategic workforce plan into the integrated plan. Until the state board develops the strategic workforce plan, it will continue to provide little guidance about the State's efforts to continuously improve its workforce investment system. Therefore, the State runs the risk that it may not provide services to all eligible members of the target population, a situation that may result in fewer of California's job seekers finding work.

*Without the development of a strategic workforce plan that includes, for example, established definitions and measures of success, the State cannot ensure that it is continuously improving its workforce investment system.*

*WIA requires that a majority of the state board's members represent businesses in the State. However, as of February 2012, only 10 of the state board's 26 active members, or 38 percent, were representatives of California's business community.*

### ***The State Board's Membership Does Not Meet Federal Requirements***

The state board has failed to maintain a majority of members who represent businesses throughout the State, an omission that violates the law and may prevent the state board from making recommendations that adequately represent California's business community. WIA sets forth the requirements for the state board's composition and requires that a majority of the members represent businesses in the State.

However, as of February 2012, only 10 of the state board's 26 active members, or 38 percent, were representatives of California's business community. According to the state board's acting executive director, the board had close to 60 members in 2000. In November 2009 the secretary of California's Labor Agency requested from the state board a list of board members who had missed three consecutive meetings. According to the acting executive director, the state board developed the list, which ultimately led to the dismissal of a number of board members in early 2010, bringing the board to its current count of 26 members.

The state board recognizes the importance of maintaining a majority of members who represent businesses in the State. For example, the WIA state plan developed by the state board for program year 2009, which ran from July 1 through June 30, noted that business leaders help it and the workforce investment system focus productively on the governor's priorities for the system, such as identifying and serving industries with statewide labor shortages, as well as helping them focus on national priorities.

In June 2011, the state board's acting executive director sent a memorandum to the Labor Agency secretary outlining the staff's analysis and recommendations for the future size and composition of the state board. For example, the acting executive director recommended that the board have at least 35 members, but according to the acting executive director, as of December 2011, the state board had not received a formal written response to this memorandum. However, an undersecretary for the Labor Agency stated that the Labor Agency is aware of the need to appoint additional business members and is working with the state board's staff and the governor's office to solicit and recruit new members to the board. In addition, according to the acting executive director, the U.S. Department of Labor (Labor) is aware of the state board's membership status and has informally advised him that, as part of the state board's request for a WIA state plan extension for program year 2012, it will be checking for compliance and will formally notify the state board of any findings. A regional director with Labor's Region 6 Office of State Systems stated that

the federal government—through its regional offices—would likely work with the State to develop a plan that would outline actions that the State could take to correct the problem and a timeline for completion. Until the Labor Agency takes the steps it has outlined to achieve adequate business representation, the State will continue to violate WIA and the state board will continue to make recommendations that may not adequately represent California’s business community.

*Until the Labor Agency takes the steps it has outlined to achieve adequate business representation, the State will continue to violate WIA and the state board will continue to make recommendations that may not adequately represent California’s business community.*

***The State Board Has Not Been Identifying Unnecessary Duplication Among WIA Programs and Activities***

Although the state board is currently building partnerships with various entities to coordinate workforce investment planning, it has done little to identify and reduce, where applicable, any duplication of services that program participants may be receiving via the one-stop delivery system. Without a comprehensive review, the state board may not identify inefficiencies in program administration at the local level.

WIA and state law require the state board to assist the governor in developing and continuously improving the statewide workforce investment system that the one-stop delivery system delivers by developing links to assure coordination and nonduplication among workforce programs and activities. WIA and state law also require the state board to review the plans of local boards.

The state board’s acting executive director stated that the state board routinely works with certain entities to assure coordination. Specifically, according to the acting executive director, state board staff meet with EDD management monthly to collaborate on policy and direction, and they actively participate on the California Committee on Employment of People with Disabilities, the State Rehabilitation Council, and the California Community Colleges Economic and Workforce Development Program Advisory Committee. In addition, staff members of the state board work with other state agencies that administer workforce development programs, such as the California Department of Corrections and Rehabilitation (Corrections).

In the past few years, the state board has begun developing new, ongoing partnerships with other entities. For example, since 2010, the state board chair and staff members have participated in quarterly meetings and statewide conferences with the California Workforce Association (association), a nonprofit organization that represents the State’s 49 local boards, one-stop centers, and other workforce development partners in California. The association develops public policy strategies and builds local capacity to

*Before 2010 the association was instrumental in developing the framework for California's ISD model. In July 2008 the State piloted the ISD model in 12 local workforce investment areas.*

address critical workforce issues. Before 2010 the association was instrumental in developing the framework for California's Integrated Service Delivery (ISD) model. The basic elements of the ISD model are the following: shared program staffing; a common set of services available to all customers in the pool through a common customer flow; and a common pool of customers, which is composed of the WIA Title I adults and dislocated workers and customers participating in federal Wagner-Peyser Act, Trade Adjustment Assistance Act, veteran, migrant seasonal farm worker, and long-term unemployment programs. In July 2008 the State piloted the ISD model in 12 local workforce investment areas (local areas).<sup>5</sup>

In addition, according to one of its managers, since 2009 the state board's staff members have been working with the Interdepartmental Working Group for Small Business Success within the Governor's Office of Business and Economic Development. The purpose of the working group is to improve the State's ability to support small-business owners by maintaining a positive working relationship among a broad and diverse group of state agencies and departments that have programs, projects, resources, funding, and responsibilities to assist small businesses. Further, according to the manager, since October 2011 a state board staff member has begun participating in monthly meetings for a small-business network within the Assembly Committee on Jobs, Economic Development, and the Economy, which provides government agencies, community and financial intermediaries, legislative staff, and small business and economic and trade associations an opportunity to learn about new small-business initiatives and engage in high-level policy discussions.

Finally, the California Green Collar Jobs Act of 2008 (Act) requires the state board to adopt a sector strategy approach—a collaborative effort targeting the needs of specific industry occupations—in responding to industry sector workforce and economic development needs to ensure that industry has a qualified workforce and can offer employment, training, and career advancement opportunities to all Californians. The Act also requires the state board to establish a special committee known as the Green Collar Jobs Council (council) to focus on the development of the framework, funding, strategies, programs, policies, partnerships, and opportunities to meet the needs of California's emerging green economy. In its 2011 annual report, the council stated that it will sustain its links to the California regions through California Green Workforce Initiative activities such as the

<sup>5</sup> According to the deputy chief of EDD's program and technical assistance section, the pilot project for the ISD model was still ongoing as of February 2012. Further, according to its acting executive director, at that time the state board had made no decision to implement the model statewide.

Regional Industry Clusters of Opportunities Grants (RICO) and the State Energy Sector Partnership and Training Grants programs. For example, the RICO program provides funding to 10 local areas to support regional collaboration in the local board's community. The funds provide resources and technical assistance in the areas of diagnosis, developing partnerships, designing leveraged investment strategies, and sustainable planning for regional sector initiatives.

Although it is coordinating with other entities to further develop workforce investment strategies, the state board does little to ensure that the one-stop delivery system does not duplicate services for program participants. Specifically, when we asked how the state board ensures that no such duplication occurs, the acting executive director stated that the state board believes that EDD is in the best position to evaluate the nonduplication of services to program participants because it works directly with the local boards and service providers to monitor local activities and performance. The acting executive director also stated that the state board does not have direct access to program data at the local level and that it relies on EDD's analysis and recommendations. Nevertheless, if the state board was exercising its legal authority to review the local boards' plans, it would be better able to identify and reduce any duplication of services to program participants.

Specifically, the state board only began reviewing the local boards' plans for the first time during program year 2011. Federal regulations require the governor to establish procedures for modifying local plans and to outline situations in which modifications may occur, such as significant changes in local economic conditions, changes to the local board structure, or a need to revise strategies to meet performance goals. Typically EDD issues a directive to the local boards annually to explain the plan modification process.

Before program year 2011, the local boards submitted their plans to EDD. According to the deputy chief of its program and technical assistance section, EDD reviewed the local plans using, among other things, a checklist to verify that the required elements of the plan (shown in the text box) were addressed by the local boards. The deputy chief stated that EDD

### The Required Elements of a Local Workforce Investment Plan

Identification of the following items:

- The workforce investment needs of businesses, job seekers, and workers in the local area.
- Current and projected employment opportunities and job skills needed for businesses and individuals to obtain such opportunities.
- The fiscal agent or the entity responsible for disbursing grant funds.

Descriptions of the following items:

- The one-stop delivery system to be established or designated in the local area.
- The local levels of performance negotiated with the governor and the chief elected official(s) to be used by the local board for measuring performance of the local fiscal agent, eligible service providers, and the one-stop delivery system.
- The process the local board will use to coordinate local activities with statewide rapid-response activities.
- The process the local board will use to provide opportunity for public comment on development of the local plan before the submission of the plan.
- The competitive process that the local board will use to award grants and to contract for activities carried out under the Workforce Investment Act of 1998 (WIA).
- The criteria that both the governor and the local board will use to determine whether funds allocated to a local area for adult employment and training activities are limited and the process by which the one-stop operator will apply any priority.

Descriptions and assessments of the following items:

- The type and availability of employment and training activities for adult and dislocated workers in the local area.
- The type and availability of youth activities in the local area, including an identification of successful providers of such activities.

In cases in which an alternate entity functions as the local board, the information that demonstrates how the local entity performs the functions of a local board so that the entity meets the requirements set forth in WIA.

Any other information that the governor may require.

Source: Code of Federal Regulations, Title 20, Section 661.350.

would forward its recommendation to the state board for approval or for conditional approval. However, a manager at the state board said that before program year 2011, the state board never received any documentation from EDD that included recommendations for its approval or conditional approval of the local boards' plans. The manager also said that the state board was not aware of any correspondence from EDD to the local boards approving their plans. The acting executive director stated that the board's decision to review the plans beginning in program year 2011 was based on the growing national and state interest in a comprehensive program analysis of WIA administration. In addition, the state board's goal was to make the local plans into a more robust strategic document that it could use as an accountability tool to help evaluate local board performance. EDD's May 2011 directive requested that the local boards submit their plans to EDD by June 30, 2011, and informed them that the state board would review and approve their plans. The manager stated that as of January 2012, the state board had received and approved 46 of the 49 local plans for program year 2011. However, according to the manager, the state board's review of the plans did not include steps to identify and reduce, if applicable, any unnecessary duplication of services.

The primary role of the state board is to assist the governor. Further, the state board is an advisory body; although it adopts workforce-related policies, it has no authority to direct the activities of EDD. The manager said that the state board intends to require the local boards to submit their future plans directly to the state board so that it can perform a more substantive review. Until roles and responsibilities of the state board and EDD are clarified, either through the approval of the strategic workforce plan or clarifying legislation, the state board runs the risk of prolonging its failure to fulfill the WIA requirements for state boards, such as assuring nonduplication among workforce programs and activities as part of its review of the local boards' plans.

*Until the roles and responsibilities of the state board and EDD are clarified, the state board runs the risk of prolonging its failure to fulfill the WIA requirements for state boards, such as assuring nonduplication among workforce programs and activities as part of its review of the local boards' plans.*

### **EDD Could Not Provide Other Entities With Sufficient Data for Developing Additional Performance Measures**

WIA establishes a performance accountability system to assess the effectiveness of the Title I workforce investment activities of states and local areas. As part of the accountability system, WIA established the seven core indicators of performance and two customer satisfaction indicators of performance that we discuss in the Introduction. Since 2007 Labor has granted waivers to California that allow it to implement and report only the six common measures that we also discuss in the Introduction. However, neither WIA nor the waivers prohibit the State from identifying and using additional performance indicators to evaluate

the efficiency and effectiveness of WIA activities and programs. By not identifying and using additional performance measures, the State cannot adequately ensure that it is making the most effective use of federal workforce investment funds.

In August 2007 EDD sent a directive to the workforce development community outlining the State's intent to request a waiver of the WIA core and customer satisfaction indicators of performance. EDD stated that one of the goals of the waiver was to create the opportunity for the implementation of state-specific performance measures. However, when we asked the chief of its workforce services division how EDD measures the process of developing and preparing clients to enter employment, the chief stated that the State's success in preparing clients is typically measured by how many of them obtain and retain jobs. These two measures are federal common measures and not additional measures specific to California. In addition, the deputy chief of its information technology and program accountability section stated that EDD has not established additional performance measures because there has been no law or policy directing it to do so nor has there been available funding to support the increase in capacity that would be needed to collect and analyze the relevant data.

The state board and other workforce investment partners could benefit from the implementation of state-specific performance measures. However, a major obstacle for these entities has been obtaining the data from EDD they need to develop performance measures. Specifically, in a November 2009 meeting, the state board discussed the development of a performance dashboard, or a computer-based visual display of critical information needed for decision making. According to its acting executive director, the state board intended to collect data from the local level on performance measures such as the cost-per-client served, cost-per-placement for each client, and return on investment (such as dividing the increase in earnings that result from a program by the cost of the program), and to identify historical trends. Yet, according to its acting executive director, the state board was unable to receive the relevant data in the format it requested from EDD to produce these additional performance measures. EDD stated that it provided the state board with WIA participant and performance data and that the state board then asked for a different format, which EDD believes it provided in some measure. Nevertheless, in August 2011, the state board purchased access to WIA program data, at a cost of \$3,000 per year, from a vendor that obtains its data from Labor, which obtains California data from EDD. At an October 2011 Issues and Policy Special Committee meeting, the state board presented its dashboard reporting for program year 2010. However, the metrics in the dashboard were the same federal common measures that EDD reports to Labor. The acting executive director

***A major obstacle for the state board and other workforce investment partners has been obtaining the data from EDD they need to develop performance measures.***

**The performance indicators for a local workforce investment board under the California New Start program may include these measurements:**

- Percentage of inmates receiving employment services while the inmates are in custody.
- Percentage of parolees who come to the reentry service provider for employment placement assistance.
- Percentage of parolees who have documents necessary for employment (e.g., resume, social security card, etc.).
- Percentage of parolees placed in jobs by the service provider.
- Percentage of parolees placed in full-time, part-time, or temporary positions.
- Average number of days from the release date for all parolees who become employed to the date of employment placement.
- Percentage of offenders who are unemployed or not seeking employment due to short- or long-term disabilities or other reasons.

Sources: Interagency agreements between the California Department of Corrections and Rehabilitation and the California Workforce Investment Board.

anticipates that when the state board incorporates the strategic workforce plan into the federal integrated plan, it will include performance measures specific to California.

Corrections is another entity that was unable to receive relevant information from EDD. In July 2009 Corrections and the state board entered into an interagency agreement to work collaboratively toward implementing the California New Start Prison-to-Employment Program (California New Start program), which aims to improve the employability of offenders who leave California prisons, among other goals. The agreement states that because EDD administers the system of participant data collection, reporting, and performance measures for local boards, it would serve the same function under the California New Start program using its existing and future information systems, when available. The agreement also provides the list of potential performance indicators shown in the text box.

According to a manager in its Office of Offender Services, during program year 2010 Corrections began holding quarterly meetings with the state board and EDD to review program performance indicator data. Corrections asked for access to EDD's Job Training Automation (JTA) system so that it could evaluate real-time program performance and financial data to identify why some local boards were not spending their funds in a timely way. However, EDD could not provide Corrections with the relevant data to implement the performance measures indicated in the text box or similar measures. Specifically, according to a deputy chief, EDD could not provide the data Corrections needed because the JTA system does not collect information beyond the federal common measures. According to its manager, because Corrections was unable to obtain the data, it required the local boards to report certain performance measurement data to it directly. Specifically, in November 2010 Corrections began collecting data from the local boards related to the number of parolees who were referred to the California New Start program, enrolled in WIA programs and activities, participants in workshops or vocational and on-the-job training programs, referred to jobs, and placed in jobs.

In January 2011 EDD entered into a more than six-year agreement with a vendor to replace its existing JTA system with a Web-based system that supports the business requirements of the State's



one-stop delivery system. Implementing the new system will likely cost the State roughly \$16 million, including implementation and ongoing maintenance costs. In describing to potential bidders the features the new system would need, among other things, EDD stated that the system should enable the sharing of data from federal, state, and local governments and community-based organizations to provide improved performance reporting. The deputy chief of its information technology and program accountability section stated that the primary function of the new system, as well as its predecessor, the JTA system, is to meet federal reporting requirements. The deputy chief also stated that because the new system is an off-the-shelf system and significant changes would likely be quite costly, it will have limited capability for capturing additional data elements for state-specific reporting requirements. Consequently, the deputy chief believes that any requests to add new data elements to the new system would have to be on a case-by-case basis and subject to a cost-benefit analysis. Finally, the deputy chief stated that EDD will begin using the new system in July 2012.

The State's ability to capture additional data elements for state-specific performance measurements has become increasingly important because of recent legislation. This legislation, enacted in October 2011, provides the State with an opportunity to link education and training to economic development. Specifically, beginning with program year 2012, the law requires that the State provide an amount equal to at least 25 percent of the WIA Title I funds for adults and dislocated workers to local boards to be spent on workforce training programs. The law increases this percentage to at least 30 percent beginning with program year 2016. The law also directs the local boards to submit corrective action plans to EDD if they do not meet this training spending requirement. The State may be able to develop additional performance indicators that determine if its training programs are effective. According to the deputy chief of EDD's information technology and program accountability section, the state board and EDD are currently discussing efforts to implement this legislation. In addition, other legislation enacted in October 2011 requires the governor to establish, through the state board, standards for certification of high-performance local boards by January 1, 2013. The law requires the state board, in consultation with representatives from the local boards, to initiate a stakeholder process to determine the appropriate metrics and standards for high-performance certification. The state board most likely will need state-specific data to develop and implement the metrics under this law.

The deputy chief of EDD's information technology and program accountability section stated that, given the current project schedule for the new system, EDD should be able to analyze

*Implementing EDD's new Web-based system will likely cost the State roughly \$16 million, including implementation and ongoing maintenance costs.*

*The State continues to be very limited in its ability to develop and implement state-specific performance measures for WIA programs and activities.*

proposals for capturing new data elements in December 2012. Until EDD fully implements the new system and the State ensures that it has an effective process for approving and adding state-specific data elements to the system, the State continues to be very limited in its ability to develop and implement state-specific performance measures for WIA programs and activities.

### **EDD Did Not Demonstrate Its Compliance With WIA's Additional Assistance Requirements When Approving Some Awards**

Although it has the authority under California law to administer WIA requirements, EDD did not demonstrate it complied consistently with certain WIA requirements; instead, it awarded additional assistance funds to local boards and a community-based organization that had not identified specific dislocation events. WIA requires the governor of each state to reserve not more than 25 percent of the formula-based funding for dislocated workers we discuss in the Introduction to provide statewide rapid-response activities, which include providing additional assistance to the local areas in those states that experience natural disasters, mass layoffs, plant closings, or other dislocation events when such events substantially increase the number of unemployed individuals. Further, the additional assistance funding must be used to provide direct services to participants, such as the core, intensive, and training services described previously in the Introduction, if adequate local funds are not available to assist the dislocated workers. WIA also states that rapid-response activities, which include additional assistance, must be carried out by a state or its designee in conjunction with the local boards and the chief elected officials in the local areas. EDD's failure to demonstrate its compliance with WIA increases the State's risk of potentially losing WIA funding.

In fiscal years 2008–09 through 2010–11, EDD awarded a total of \$54.2 million in additional assistance funds to local boards and a community-based organization for 52 projects.<sup>6</sup> Our review of 17 of these projects found that seven projects, or 41 percent, totaling \$16.7 million did not refer to specific dislocation events in either their applications or the contracts they entered into with EDD. As an example, EDD awarded \$7.5 million in additional assistance funds to a community-based organization. In its

<sup>6</sup> We found that EDD's list of additional assistance awards was complete for the purpose of selecting awards.

application, this organization stated it would provide services to migrant and seasonal farm workers and their families but failed to identify specific dislocation events.

The chief of the workforce services division stated that he believes EDD is in compliance with WIA's additional assistance requirements. The chief acknowledged that the local boards could have more fully detailed or articulated specific events in their applications, but he stated that he was confident that the local boards applying for the additional assistance funds had a demonstrated need. Further, the chief stated that in EDD's judgment, the "other events that precipitate substantial increases in the number of unemployed individuals," as authorized by federal law and regulations, are what led to the high percentage of unemployed Californians, which falls into the "other" category of dislocation events, along with disasters, mass layoffs, and plant closings. According to the chief, EDD's interpretation of WIA is that "other events" (i.e., the higher percentage of unemployed) in local areas generate a demand for services that cannot otherwise be met by using existing funds.

We disagree with the chief's assertion that EDD is in compliance with WIA's requirements for additional assistance. WIA requires a dislocation event to fulfill the requirements for additional assistance funds. Because the local boards and the community-based organization did not identify specific dislocation events that led to a substantial increase in the number of unemployed individuals in their respective areas, EDD is unable to demonstrate that its awards for the seven projects met WIA's requirements.

When EDD does not demonstrate its compliance with WIA's requirement to provide additional assistance funds to only those local areas that experience dislocation events, it increases the State's risk of potentially losing WIA funding. Under WIA, if the secretary of Labor determines that a state's governor has not met applicable requirements, the secretary must require the governor to take corrective action to secure prompt compliance. In the event of the governor's failure to take the required appropriate action, the secretary of Labor must secure compliance or impose sanctions, including possible termination or suspension of financial assistance in whole or in part under certain emergency situations or where necessary to protect the integrity of the funds or the operation of the program or activity involved.

***We disagree with the chief's assertion that EDD is in compliance with WIA's requirements for additional assistance.***

*State agencies received nearly \$1.8 billion in federal funds from 12 grants related to workforce investment during fiscal years 2008–09 through 2010–11.*

### **EDD Did Not Pursue All Available Federal Funding Opportunities**

EDD is not maximizing the federal funding opportunities available for workforce investment, and thus it is not availing itself of additional funds the State can use to help job seekers obtain employment. The deputy director of EDD's workforce services branch stated that he directed EDD staff to proactively identify and apply for all applicable grants relevant to workforce development that were being offered by Labor, other federal departments, and private sources because of the current state of the economy and the slashing of federal and state budgets. However, despite the deputy director's instructions, EDD missed opportunities for the State to receive as much as \$10.5 million.

Appendix B shows that state agencies received nearly \$1.8 billion in federal funds from 12 grants related to workforce investment during fiscal years 2008–09 through 2010–11. Although California received this large amount of federal funds, we identified six missed opportunities (presented in Table 2). Among these six opportunities were a federal grant to promote, attract, and prepare disadvantaged youth and dislocated workers for careers in science, technology, engineering, and mathematics; grants to help veterans who recently separated from the military obtain counseling, training, placement, and retention associated with green jobs; and a grant to conduct demonstration projects that provide low-income individuals with education and training opportunities in health care occupations that pay well and that are expected to either experience labor shortages or be in high demand.

Although EDD has a written policy applicable to grant applications, this policy is outdated and provides only high-level direction. EDD's policy was issued in September 2007 and although the deputy director said that he directed EDD staff to proactively identify and apply for all applicable grants relevant to workforce development, the written policy provides discretion to deputy directors on whether to apply for grants. Further, the policy lacks specifics such as the methods EDD will use to identify federal grant opportunities, the factors it will consider in its decision to pursue or forego applying for these grants, and the documentation necessary to record the results of that decision. Because the documents EDD provided us were scant regarding its decision to not apply for these six opportunities, we interviewed staff in the EDD's Communication, Research, and Grants Section (section). This section is responsible for reviewing pending grants offered by the federal government, analyzing the grants' requirements, and making recommendations on whether to apply for grants.

**Table 2**  
**Missed Opportunities to Obtain Federal Funding for Workforce Investment Programs and Activities**

GRANT NAME	CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	GRANT OPPORTUNITY	GRANT AWARD AMOUNTS TO RECIPIENTS		
			AVERAGE	HIGH	LOW
Workforce Investment Act of 1998 (WIA) Pilots, Demonstrations, and Research Projects	17.261	Civic Justice Corps Grants Serving Juvenile Offenders	\$1,333,333	\$1,500,000	\$560,000
H-1B Job Training Grants	17.268	Science, Technology, Engineering, and Mathematics Opportunities in the Workforce System Initiative	1,999,825	2,000,000	1,999,180
H-1B Job Training Grants	17.268	Older Worker Demonstration	991,735	1,000,000	967,005
Veterans' Employment Program	17.802	Veterans' Workforce Investment Program Grants for Program Year 2009	445,185	500,000	270,000
Veterans' Employment Program	17.802	Veterans' Workforce Investment Program Grants for Program Year 2010	433,960	500,000	146,248
Affordable Care Act Health Profession Opportunity Grant	93.093	Health Profession Opportunity Grants to Serve Temporary Assistance for Needy Families Recipients and Other Low-Income Individuals	2,189,894	5,000,000	1,000,000
<b>Totals</b>			<b>\$7,393,932</b>	<b>\$10,500,000</b>	<b>\$4,942,433</b>

Sources: Web sites for the U.S. Department of Labor, the U.S. Department of Health and Human Services, and the U.S. General Services Administration.

The section manager was unable to find anything in EDD's files to support its decision to forego the WIA pilot, demonstration, and research project related to the grant serving juvenile offenders. In addition, the section manager stated that EDD was not eligible to apply for the H-1B job training grant related to the Science, Technology, Engineering, and Mathematics Opportunities in the Workforce System Initiative. However, Labor's original solicitation for grant applications stated that individual workforce investment boards representing a regional consortium of workforce investment boards were eligible to apply for this grant, and Labor also subsequently amended its solicitation announcement to clarify that state boards as well as local boards were eligible to apply for this grant. Further, the section manager stated that EDD did not pursue the H-1B training grant related to the older worker demonstration because it believed the Department of Aging was better suited to apply for this grant and because, based on Labor's solicitation for grant applications, the local boards were the preferred applicants. Nevertheless, EDD was in fact eligible to apply for this grant on behalf of the state board.

The section manager offered different explanations for EDD's decision to forego three other grant opportunities. Specifically, the section manager stated that EDD did not apply for the health profession opportunity grant that could potentially bring the State up to \$5 million because of EDD's workload, limited staff,

***EDD was eligible to apply for a certain grant for veterans and we found no information in the solicitation for grant applications that precluded the local entities from receiving funds if the State were to apply for the grant.***

and a decision to focus on the federal American Recovery and Reinvestment Act On-the-Job Training National Emergency Grant (national emergency grant), for which EDD received \$9.9 million. The section manager stated that when the U.S. Department of Health and Human Services (Health) issued its announcement for the health profession opportunity grant, EDD was heavily involved in administering two other grant solicitations and it had just been awarded the \$9.9 million national emergency grant. According to the section manager, after careful consideration of the many requirements in Health's announcement, EDD's management decided to focus their attention on the national emergency grant, which they believed would have the greatest impact on the State at that time. However, because of the potential for the State to receive up to \$5 million, we would have expected EDD to prepare an analysis that included a discussion as to how it could resolve its workload and staff limitations to free up staff for the health profession opportunity grant application. For two opportunities related to the Veterans' Employment Program grant, the section manager stated that historically EDD has not applied for this grant because the amount is relatively small—a maximum of \$500,000—and the State has benefited more by having local entities apply for the grant. The section manager also stated that if EDD had received awards for this grant, a portion of the funds would remain at the state level for administrative costs, instead of local entities receiving the full award amount to provide services to veterans. Nevertheless, EDD was in fact eligible to apply for these grant opportunities, and we found no information in the solicitation for grant applications that precluded the local entities from receiving funds if the State were to apply for the grant.

Because EDD does not have a grant review and approval process that documents its identification of grant opportunities and its final decisions related to such opportunities, we were unable to substantiate EDD's reasons for foregoing grant opportunities. Without such a review and approval process, EDD cannot demonstrate that its consideration of grant opportunities is consistent and it cannot justify its decision to forego opportunities that could bring additional, available federal funding into the State to better help California job seekers obtain employment.

Finally, unlike the previous instances when EDD did not pursue available opportunities to obtain federal funding, we observed that California has not received incentive funding for workforce investment. To qualify for the Incentive Grants—WIA Section 503, a state must exceed its federal performance levels for the immediately preceding year related to the WIA Title I programs and Title II Adult Education and Family Literacy Act programs. California did not appear on the lists of states eligible to receive incentive grants, which were published in the *Federal Register* in

May 2009, May 2010, and May 2011. Because the State is unable to exceed the performance measures it agreed upon with the federal government, it loses between \$750,000 and \$3 million in incentive funds each year.

### Recommendations

To ensure that the state board promptly develops a strategic workforce plan, the Legislature should consider amending the pertinent statutes to establish a due date for the plan.

To comply with WIA requirements for state boards, the Legislature should consider amending the pertinent statutes to clarify the roles and responsibilities of the state board and EDD.

To make certain that the state board meets the WIA requirement that a majority of the members are representatives of California businesses, the Labor Agency should continue working with the governor's office to identify and appoint a sufficient number of business representatives to the state board as soon as possible.

To assist the governor in the development, oversight, and continuous improvement of California's workforce investment system, the state board should:

- Collaborate with state and local workforce investment partners to promptly develop and implement a strategic workforce plan as state law requires. The strategic plan should include, at a minimum, the following elements:
  - Clear roles and responsibilities pertaining to the state board, EDD, and other state and local workforce partners.
  - Clear definitions for terminology used in the strategic plan such as *quality services*.
  - Performance measures that are specific to California for evaluating the efficiency and effectiveness of WIA-funded programs and activities.
  - Procedures for approving the addition of data elements to EDD's Web-based system and for the exchange of data between EDD and the state board to facilitate the development and implementation of performance measures that are specific to California.

- Continue to exercise its legal authority to review the local boards' plans to, among other things, assure the coordination and nonduplication of services to program participants.

To assist the state board and other workforce investment partners in the development and implementation of state-specific performance measures, EDD should ensure that it works with the state board to develop procedures for approving the addition of data elements to its Web-based system and for the exchange of data between EDD and the state board.

To comply with WIA requirements and eliminate the State's risk of losing funds, EDD should ensure that it awards rapid-response funding for additional assistance only to local boards or community-based organizations that demonstrate that their local areas experience natural disasters, mass layoffs, plant closings, or other dislocation events when such events substantially increase the number of unemployed individuals.

To ensure that the State maximizes federal funding opportunities related to workforce investment, EDD should take the following steps:

- Update its written policy to include, at a minimum, the following procedures:
  - 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 final decision to either pursue or forego the grant opportunity.
- Implement the updated policy as soon as practicable.



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 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: March 27, 2012

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## Appendix A

### FUNDING AMOUNTS AND NUMBERS OF PARTICIPANTS FOR SELECTED DEPARTMENTS AND PROGRAMS FUNDED BY THE WORKFORCE INVESTMENT ACT OF 1998

The Joint Legislative Audit Committee directed the California State Auditor to identify the amounts of funding received from grants under the federal Workforce Investment Act of 1998 (WIA), the programs administered and the services provided, and the target populations and number of participants served by the programs. We obtained this information for selected WIA Title I grants from the following state entities: the California Workforce Investment Board (state board), the Employment Development Department (EDD), the California Department of Corrections and Rehabilitation, and the California Community Colleges Chancellor's Office. Table A on the following page summarizes this information.

As Table A shows, from fiscal years 2008–09 through 2010–11, the total amount of funding that EDD received increased dramatically for the WIA programs aimed at adults, dislocated workers, and youths. Specifically, from fiscal years 2008–09 through 2010–11, the funding that EDD received for these programs increased by \$221.1 million, or 53 percent. Funding changes from the federal American Recovery and Reinvestment Act of 2009 (Recovery Act) were the principal cause of these fluctuations. In February 2009 the federal government enacted the Recovery Act to help fight the negative effects of the United States' economic recession, and the federal government provided Recovery Act funding to the states. The state board and EDD received a total of \$478.6 million in Recovery Act funding for the adult, dislocated worker, and youth WIA programs from fiscal years 2008–09 through 2010–11.

**Table A**  
**Funding and Participants for Selected Departments and Programs Funded by the Federal Workforce Investment Act of 1998**

DEPARTMENT	PROGRAM NAME	SERVICES	TARGET POPULATION	FUNDING BY FISCAL YEAR*			NUMBER OF PARTICIPANTS BY FISCAL YEAR				
				2008-09	2009-10	2010-11	THREE-YEAR TOTALS	2008-09	2009-10	2010-11	THREE-YEAR TOTALS
Employment Development Department (EDD)	Workforce Investment Act of 1998 (WIA) Adult Program	Core, Intensive, and Training†	Adults between the ages of 22 and 72	\$114,145,958	\$167,373,557	\$154,279,738	\$435,799,253	130,700	130,274	97,451	358,425
	WIA Dislocated Workers†	Core, Intensive, and Training†	Dislocated workers	179,562,294	258,427,867	317,282,908	755,273,069	46,304	82,323	64,806	193,433
	WIA Youth Activities	Various§	Certain youth between the ages of 14 and 21	127,204,736	243,754,205	170,450,744	541,409,685	23,259	28,857	29,811	81,927
<b>Totals</b>				<b>\$420,912,988</b>	<b>\$669,555,629</b>	<b>\$642,013,390</b>	<b>\$1,732,482,007</b>	<b>200,263</b>	<b>241,454</b>	<b>192,068</b>	<b>633,785</b>
California Workforce Investment Board (state board)	WIA Adult Program	Core, Intensive, and Training†	Adults between the ages of 22 and 72	\$786,581	\$603,902	\$260,337	\$1,650,820	#	#	#	#
	WIA Dislocated Workers†	Core, Intensive, and Training†	Dislocated workers	481,000	648,277	898,897	2,028,174	#	#	#	#
	WIA Youth Activities	Various§	Certain youth between the ages of 14 and 21	1,197,020	1,013,097	1,251,286	3,461,403	#	#	#	#
<b>Totals</b>				<b>\$2,464,601</b>	<b>\$2,265,276</b>	<b>\$2,410,520</b>	<b>\$7,140,397</b>				
California Department of Corrections and Rehabilitation (Corrections)	California New Start Prison-to-Employment Program	Examples include in-prison vocational and employment skills training and post-prison employment placement services	Inmates and parolees	0**	\$2,379,111	\$3,851,159	\$6,230,270	2**	1,420	2,222	3,644
	Computerized Literacy Learning Centers	Computer-based instructional programs that are designed to increase literacy skills	Parolees	\$2,986,784	3,002,375	2,836,198	8,825,357	3,372	3,637	3,757	10,766
<b>Totals</b>				<b>\$2,986,784</b>	<b>\$5,381,486</b>	<b>\$6,687,357</b>	<b>\$15,055,627</b>	<b>3,374</b>	<b>5,057</b>	<b>5,979</b>	<b>14,410</b>
California Community Colleges Chancellor's Office (Chancellor's Office)	Allied Health Program Expansion††	Provides education, supplies, software, and support services such as child care	Students interested in allied health occupations	\$0	\$1,390,680	\$9,021,819	\$10,412,499	0	503	504	1,007
	Nurse Education Initiative	Provides education, supplies, software, and support services such as tutoring and child care	Students interested in the nursing profession	3,790,994	6,586,486	5,767,117	16,144,597	0	118	304	422
<b>Totals</b>				<b>\$3,790,994</b>	<b>\$7,977,166</b>	<b>\$14,788,936</b>	<b>\$26,557,096</b>	<b>0</b>	<b>621</b>	<b>808</b>	<b>1,429</b>

Sources: The following sources were used to compile the information in Table A:

- We compiled the information for EDD's programs from WIA, the U.S. General Services Administration (GSA), the California State Controller's Office (SCO) federal cash receipts reports, and EDD's program participant data. According to EDD, the program participant data represents unique client counts within a service category but not among the service categories because a client could potentially receive all three services. The California State Auditor (state auditor) did not assess the reliability of EDD's program participant data because these data do not materially affect the findings, conclusions, or recommendations in this report.
- We compiled the information for the state board's programs from WIA, the GSA, and the SCO's federal cash receipts reports.

- We compiled the information for Corrections' programs from its agreement with EDD and its Web site. In addition, we used EDD's funding and participant data for the California New Start program and Corrections' funding and participant data for the Computerized Literacy Learning Centers program. The state auditor did not assess the reliability of EDD's or Corrections' program funding and participant data because these data do not materially affect the findings, conclusions, or recommendations in this report.
- We compiled the information for the Chancellor's Office programs from requests for applications it prepared for the programs and its accounting records. In addition, we used EDD's participant data for the Allied Health Program Expansion and the Nurse Education Initiative. The state auditor did not assess the reliability of the funding and participant data for the Chancellor's Office programs because these data do not materially affect the findings, conclusions, or recommendations in this report.
- \* The funding amounts for EDD and the state board programs are based on the SCO's federal cash receipts reports. However, the funding amounts for Corrections and the Chancellor's Office programs are based on expenditures for those programs.
- † **Core services** include a determination of the individual's eligibility to receive assistance; outreach, intake, and orientation to the information and other services available through the one-stop delivery system; initial assessments of skill levels, aptitudes, abilities, and supportive service needs; and job search and placement assistance or career counseling.
- ‡ **Intensive services** include comprehensive, specialized assessments of the individual's skill level and service needs using diagnostic tests and in-depth interviews or evaluations; the development of an individual employment plan; group or individual career counseling; or short-term prevocational services to develop communication, interviewing, learning, and other skills.
- ‡ **Training services** include occupational skills training, on-the-job training, skill upgrading and retraining, job readiness training, and customized training conducted with a commitment from employers.
- ‡ **Dislocated workers** fall into one of three groups: individuals who have been terminated or laid off, or they have received notices of termination or layoff, but they are unlikely to return to their previous industries or occupations, and they are eligible for or have exhausted their entitlements to unemployment compensation; individuals who were self-employed but are now unemployed because of general economic conditions in their communities or because of natural disasters; or individuals who are displaced homemakers.
- § Youth services include tutoring, study skills training, and instruction leading to secondary school completion; alternative secondary school offerings; summer employment opportunities directly linked to academic and occupational learning; paid and unpaid work experiences, including internships and job shadowing; occupational skill training; leadership development opportunities; supportive services; adult mentoring; follow-up services; and comprehensive guidance and counseling, including drug and alcohol abuse counseling.
- || The age limit was increased to 24 for youth activities funded by the American Recovery and Reinvestment Act of 2009.
- # The state board is an advisory body that adopts workforce-related policy. It does not provide direct services to participants.
- \*\* The state board and Corrections signed the initial agreement for the California New Start program in July 2009.
- †† Allied Health Program Expansion services are aimed primarily at students receiving education for the following occupations: dental assistants and hygienists, medical assistants, medical lab technicians, pharmacy technicians, radiologic technologists, and respiratory therapists.

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## Appendix B

### FEDERAL GRANTS AVAILABLE FOR WORKFORCE INVESTMENT

The Joint Legislative Audit Committee directed the California State Auditor to determine whether the California Workforce Investment Board and the Employment Development Department (EDD) maximized grant opportunities under the federal Workforce Investment Act of 1998. We identified and examined relevant grants for fiscal years 2008–09 through 2010–11. Table B on the following page summarizes the results of our review.

As Table B shows, four state entities received funding from 12 of the 21 federal grants we included in our review. EDD did not seek funding from the other nine grants for varying reasons, which we describe in the footnotes to Table B.

**Table B**  
**Receipts From Selected Federal Grants Associated With Workforce Investment**  
**Fiscal Years 2008–09 Through 2010–11**

PROGRAM TITLE	CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	STATE DEPARTMENT RECEIVING FUNDS	RECEIPTS, BY FISCAL YEAR				THREE-YEAR TOTALS
			2008-09	2009-10	2010-11		
<b>Selected Federal Grants Under the Workforce Investment Act of 1998 (WIA)</b>							
Workforce Investment Act (WIA) Adult Program	17.258	Employment Development Department (EDD) Workforce Investment Board (state board)	\$114,145,958 786,581	\$167,373,557 603,902	\$154,279,738 260,337	\$435,799,253 1,650,820	
		<b>Subtotals for 17.258</b>	<b>\$114,932,539</b>	<b>\$167,977,459</b>	<b>\$154,540,075</b>	<b>\$437,450,073</b>	
WIA Youth Activities	17.259	EDD State board	127,204,736 1,197,020	243,754,205 1,013,097	170,450,744 1,251,286	541,409,685 3,461,403	
		<b>Subtotals for 17.259</b>	<b>\$128,401,756</b>	<b>\$244,767,302</b>	<b>\$171,702,030</b>	<b>\$544,871,088</b>	
WIA Dislocated Workers	17.260	EDD State board	179,562,294 481,000	258,427,867 648,277	243,324,313 430,226	681,314,474 1,559,503	
		<b>Subtotals for 17.260</b>	<b>\$180,043,294</b>	<b>\$259,076,144</b>	<b>\$243,754,539</b>	<b>\$682,873,977</b>	
WIA Dislocated Worker Formula Grants	17.278	EDD State board	0 0	0 0	73,958,595 468,671	73,958,595 468,671	
		<b>Subtotals for 17.278</b>	<b>\$0</b>	<b>\$0</b>	<b>\$74,427,266</b>	<b>\$74,427,266</b>	
WIA Pilots, Demonstrations, and Research Projects*	17.261	EDD	711,732	0	0	711,732	
WIA Evaluation†	17.262		0	0	0	0	
National Farmworker Jobs Program‡	17.264		0	0	0	0	
Work Incentive Grants	17.266	EDD	1,954,095	1,719,548	742,089	4,415,732	
Incentive Grants—WIA Section 503*	17.267		0	0	0	0	
Community-Based Job Training Grants	17.269	California Community Colleges	846,093	549,022	0	1,395,115	
Reintegration of Ex-Offenders	17.270	Department of Community Services and Development	31,178	99,255	0	130,433	
YouthBuild§	17.274		0	0	0	0	
WIA National Emergency Grants	17.277	EDD	0	0	667,808	667,808	
Green Jobs Innovation Fund Grants	17.279		0	0	0	0	
WIA Dislocated Worker National Reserve Demonstration Grants#	17.280		0	0	0	0	
WIA Dislocated Worker National Reserve Technical Assistance and Training#	17.281		0	0	0	0	
Veterans' Employment Program*	17.802		0	0	0	0	
<b>Totals, Selected WIA Grants</b>			<b>\$426,920,687</b>	<b>\$674,188,730</b>	<b>\$645,833,807</b>	<b>\$1,746,943,224</b>	



PROGRAM TITLE	CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	STATE DEPARTMENT RECEIVING FUNDS	RECEIPTS, BY FISCAL YEAR			THREE-YEAR TOTALS
			2008-09	2009-10	2010-11	
<b>Selected Federal Grants Not Part of WIA</b>						
H-1B Job Training Grants*	17.268	EDD	\$6,831,533	\$4,031,545	0	\$10,863,078
Program of Competitive Grants for Worker Training and Placement in High-Growth and Emerging Industry Sectors	17.275	EDD	0	90,035	\$2,062,287	2,152,322
		State board	0	8,225	364,522	372,747
		<b>Subtotals for 17.275</b>	<b>\$0</b>	<b>\$98,260</b>	<b>\$2,426,809</b>	<b>\$2,525,069</b>
Affordable Care Act (ACA) Health Profession Opportunity Grants*	93.093		0	0	0	0
ACA State Health Care Workforce Development Grants	93.509	State board	0	0	95,289	95,289
<b>Totals, Selected Non-WIA Grants</b>			<b>\$6,831,533</b>	<b>\$4,129,805</b>	<b>\$2,522,098</b>	<b>\$13,483,437</b>
<b>Totals, All Selected Grants</b>			<b>\$433,752,220</b>	<b>\$678,318,535</b>	<b>\$648,355,905</b>	<b>\$1,760,426,660</b>

Sources: The following sources were used to compile the information in Table B:

- We obtained the program titles and catalog of federal domestic assistance numbers from the U.S. General Services Administration's (GSA) Web site.
- We obtained the receipts amounts from California State Controller's Office federal cash receipts reports.
- We obtained the information for the footnotes from EDD employees, and the Web sites for GSA, the U.S. Department of Labor (Labor), and the U.S. Government Printing Office.
- \* We discuss EDD's reason for not pursuing this grant on pages 32 through 35 of the audit report.
- † Labor added this grant on August 23, 2010, but archived it on August 16, 2011. Federal agencies can archive grants for a variety of reasons such as budget authority expiration, program consolidation, or change in operational status.
- ‡ State and local agencies and private nonprofit organizations that are authorized to operate employment and training programs are eligible for this grant. EDD's section manager (section manager) stated that the customary recipients of these funds in California are four not-for-profit organizations and one local area with whom EDD already has relationships. She added that the primary reason for not applying is that the five long-standing recipients of these funds have unique experience and expertise that makes them much more competitive for these funds than EDD, and ultimately results in the State receiving more funding than if EDD were to directly compete against them.
- § The section manager stated that EDD determined that it could not meet the elements of this grant. EDD also noted that California has 21 YouthBuild programs operated by private, nonprofit, or public organizations. Information from Labor's Web site shows that several local organizations in California received federal funding from this grant during the three years we examined.
- || The section manager stated that the California Labor Federation applied for this grant and EDD was named as the "invested partner." However, Labor denied the grant application.
- # Labor did not solicit applications for this grant.

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*(Agency response provided as text only.)*

California Labor and Workforce Development Agency  
800 Capitol Mall, Suite 5000  
Sacramento, CA 95814

March 12, 2012

Elaine M. Howle, CPA  
State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Subject: Federal Workforce Investment Act #2011-111 March 2012

Dear Ms. Howle,

The Labor and Workforce Development Agency (LWDA) has received BSA's draft report on the audit of the Federal Workforce Investment Act. The report identifies recommendations for LWDA, the California Workforce Investment Board (CWIB) and the Employment Development Department (EDD).

Please find the response for LWDA below and its constituent components attached.

**BSA Recommendation:** Labor Agency should continue working with the governor's office to identify and appoint a sufficient number of business representatives to the board as soon as possible.

CWIB was established by Executive Order in response to the federal Workforce Investment Act of 1998 and is responsible for assisting the Governor in setting and guiding policy on statewide workforce development issues. By statute CWIB is required to have a business member majority, at least fifteen percent of the members being representatives of labor organizations followed by other designated membership criteria. Given that these membership requirements are derived by an overall percentage basis when any particular member leaves CWIB the overall composition changes and therefore the percentages fluctuate.

LWDA is in agreement with this recommendation. The Governor recently appointed a new Executive Director to CWIB who started in January 2012 with the task of developing strategies and policies that will help achieve the goals of reducing unemployment through the provision of basic skills training and apprenticeship/employer-sponsored training to Californian's most in need.

LWDA and CWIB staff are actively working with the Governor's Appointment office to solicit and recruit new members to CWIB with the goal to have a fully appointed CWIB as soon as possible. We have also explored with the U.S. Department of Labor the make-up and composition of other state's workforce boards, some of which were grandfathered in when the Workforce Investment Act was created.

Should you have any questions or need additional information please do not hesitate to contact LWDA's Undersecretary Doug Hoffner at 916-653-9913.

Sincerely,

(Signed by: Marty Morgenstern)

Marty Morgenstern  
Secretary

*(Agency response provided as text only.)*

California Workforce Investment Board  
777 12<sup>th</sup> Street, Suite 200  
Sacramento, CA 95814

March 12, 2012

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

Dear Ms. Howle:

The California Workforce Investment Board (CWIB) agrees with the BSA's recommendations pertaining to CWIB and agrees that implementing the recommendations will enable CWIB to better assist the Governor in the development, oversight, and continuous improvement of California's workforce investment system.

**Recommendation One:** CWIB should collaborate with state and local workforce investment partners to promptly develop and implement a strategic workforce plan as state law requires. The strategic plan should include, at a minimum, the following elements:

- Clear roles and responsibilities pertaining to CWIB and its state and local workforce partners.
- Clear definitions for terminology used in the strategic plan such as quality services.
- Performance measures that are specific to California for evaluating the efficiency and effectiveness of WIA-funded programs and activities.
- Procedures for approving the addition of data elements to the Web-based system and for the exchange of data between the Employment Development Department (EDD) and CWIB to facilitate the development and implementation of performance measures that are specific to California.

CWIB agrees with BSA's recommendation. As noted by BSA, in February 2012 CWIB received preliminary integrated state plan guidance from the U.S. Department of Labor (US DOL). CWIB intends to incorporate the strategic workforce plan required by state law into the integrated state plan required by U.S. DOL. CWIB believes that integrating the two plans into one document will help to provide a clear vision and direction for California's workforce investment system.

Over the course of the next several months, CWIB will collaborate with its state and local partners to clearly define the respective roles and responsibilities and include them in the integrated strategic workforce plan. This collaboration will take place via individual and group meetings between CWIB staff and high level representatives of EDD, California Department of Education, Community Colleges Chancellor's Office, Department of Rehabilitation, Department of Aging, Governor's Office of Business and Economic Development, local workforce investment areas via the California Workforce Association, etc.

Through this collaborative state strategic workforce development planning process, CWIB will establish and clearly define the criteria for the evaluation and efficiency of quality Workforce Investment Act (WIA) services beyond the WIA common measures. In September 2011, U.S. DOL provided all states with a list of recommended qualitative and quantitative performance calculations for states to consider implementing. CWIB intends to work with EDD and the local areas to acquire the data in the web-based system to accurately perform these recommended calculations. Moreover, as the BSA mentioned, recently enacted state legislation requires EDD to monitor and report on adult and dislocated worker training expenditures to ensure local areas are meeting minimum training expenditure targets and requires CWIB to collaboratively develop specific criteria for the certification of high performance local boards. By implementing the recommended performance calculations provided by U.S. DOL, establishing performance criteria to evaluate the effectiveness of training services beyond the WIA common measures and by implementing high performance local board criteria required by State law, CWIB can foster the continuous improvement of California's workforce investment system.

**Recommendation Two:** CWIB should continue to exercise its legal authority to review the local boards' plans to, among other things, ensure the coordination and nonduplication of services to program participants.

CWIB agrees with BSA's recommendation. CWIB recognizes that it has a responsibility to actively fulfill its legal authority and will work with EDD and LWDA, as part of the strategic workforce planning process, to identify all responsibilities where CWIB has legal authority and to establish policies, procedures, staffing, budgets and communication strategies to support this legal authority. The integrated strategic workforce development plan will define CWIB's role in establishing the content of the local plans and its expectations as part of the review and approval process to ensure that the local plans are consistent with CWIB's vision and goals for California's workforce investment system.

Sincerely,

(Signed by: Tim Rainey)

Tim Rainey  
Executive Director

*(Agency response provided as text only.)*

Employment Development Department  
P.O. Box 826880  
Sacramento, CA 94280-0001

March 12, 2012

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

Dear Ms. Howle,

Thank you for the opportunity to respond to your audit report entitled *"Federal Workforce Investment Act: More Effective State Planning and Oversight Is Necessary to Better Help California's Job Seekers Find Employment."*

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 the Workforce Investment Act. In doing so, EDD focuses on providing streamlined services, enabling universal access, achieving increased accountability, supporting strong local board and private sector roles, and maintaining State and local flexibility.

The EDD agrees with the recommendations regarding providing additional data and awarding rapid response funding for additional assistance. Specifically, EDD will work collaboratively with the California Workforce Investment Board (State Board) to ensure that procedures are put in place for considering and approving the collection of additional data elements in EDD's new management information system, and for sharing that additional information with the State Board and other stakeholders. The EDD will also refine its application procedures to ensure that it awards the Workforce Investment Act additional assistance funding only to local boards or community-based organizations for local areas that experience natural disasters, mass layoffs, plant closings, or other dislocation events when such events substantially increase the number of unemployed individuals.

The EDD also agrees that implementing the recommendation to update its policy relating to grant applications will further improve EDD's administration of the Workforce Investment Act program. As noted in the report, State agencies received over \$1.8 billion in federal assistance from the selected grants during Fiscal Years 2008-09 through 2010-11. While EDD received over \$1.7 billion of this funding, it did not pursue an additional \$10.5 million; less than 6/10ths of one percent of the amount received. In these cases, while EDD appropriately considered the grants and decided not to pursue them, it failed to sufficiently document its rationale. Accordingly, EDD will review and update its grant application policy and procedures to ensure it prepares and retains sufficient documentation of the steps taken, factors considered, and decisions made.

Ms. Elaine M. Howle  
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I want to thank the Bureau of State Audits' staff for their professionalism and openness during this audit. If you have questions about this response, please contact Gregory Riggs, Deputy Director of EDD's Policy, Accountability and Compliance Branch at (916) 654-7014.

Sincerely,

(Signed by: Pam Harris)

PAM HARRIS  
Director



cc: Members of the Legislature  
Office of the Lieutenant Governor  
Little Hoover Commission  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press