

# OVERVIEW

## *Audit of the Employment and Training Fund*

Report No. 01-08, April 2001

### Summary

The Employment and Training Fund is a special fund within the Department of Labor and Industrial Relations. The fund program falls under the department's Workforce Development Division. The fund was created to assist employers and incumbent workers through innovative training programs designed to improve the long-term employability of Hawaii's people. We conducted this audit of the fund as directed by the Legislature through Act 197, Session Laws of Hawaii 2000.

Employment and Training Fund moneys are distributed via statewide and countywide training ("macro") grants, employer referrals ("micro" grants), and customized training (also "micro") grants. As of November 2000, the fund had financed 84 macro grants since its 1992 inception, totaling approximately \$8 million. During FY1999-00, clients were enrolled in over 10,000 classes through micro training grants. The fund has paid for nearly 30,000 micro training enrollments since it was established.

During FY1999-00, 83 percent of the fund's nearly \$4.8 million in expenditures were for training expenses. Macro grants constituted 27 percent (slightly over \$1 million) of the fund's training expenses during FY1999-00; micro grants accounted for 73 percent of its training expenses during the same fiscal year.

The fund's revenues are generated through quarterly assessments on private sector employers based on unemployment insurance contributions. Since its inception, the fund has collected over \$26 million in assessments and interest income. Until recently, the assessment rate had been .05 percent of taxable wages (except during a legislative moratorium on assessments from July 1, 1997 through December 31, 1998). However, Act 197, SLH 2000 reduced the assessment rate to .03 percent in 2001 and .01 percent in 2002, after which assessments will cease.

We found that the Employment and Training Fund has not demonstrated its effectiveness. The fund has not conducted any meaningful, substantive evaluations of its programs, which hinders an accurate assessment of the worth of the fund and the effectiveness of its programs.

The fund's monitoring oversight of its grants is inadequate. For example, although the fund spent 60 percent of its grant moneys on public micro vendors (the University of Hawaii, its community colleges, and the Department of Education's community schools) during FY1999-00, it did not require any program evaluations or reports from these vendors.

We also found the fund's process for awarding macro grants is lengthy. Delays may be contributing to a decreasing demand for such grants. Ill-defined county advisory committees may delay the application process. Furthermore, some



macro grant awards we reviewed were of questionable merit based on their high per pupil costs or small numbers of individuals trained.

Moreover, we found the fund's limited publicity hampers potential users' access to program funds. A majority of employers in the state do not know of the fund's existence or its purpose.

We found the fund's financing structure has insulated it from legislative scrutiny and oversight. Its status as a special fund and its source of assessment revenues have ensured automatic support for the fund. The fund's revenue sources and expenditures are not clearly linked in all cases; for example, although workers receive direct benefits through the fund, they do not specifically contribute to the fund.

Historically, the fund's revenues have significantly exceeded its expenditures. We therefore found the assessment moratorium was warranted. However, the fund's reported balance was misleading as to the effect of the moratorium. Although the apparent balance dropped substantially during the first year of the moratorium, much of this decrease was due to a dramatic increase in the fund's encumbrances. The increase, in turn, reflected the fund's practices of encumbering moneys not strictly for contractual—but rather for budgeting—purposes, and not lapsing certain encumbrances.

Finally, we found that additional training charges to participants are feasible, and are utilized in some instances already. However, their use so far has been limited and thus their impact is not easily determined.

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## Recommendations and Response

Our report makes a number of recommendations to the Workforce Development Division for improving its administration of the Employment and Training Fund program. For example, the division should make efforts to assess whether the program is improving the long-term employability of Hawaii's people. We also recommend that if employment and training fund activities continue to be financed outside the general fund, all executive agencies consistently treat the fund in accordance with its statutory designation as a special fund. Finally, we recommend that the Legislature consider budgeting the program's activities through the general fund instead of a special fund as a means to increase legislative oversight and heighten program accountability.

In its response to a draft of our report, the Department of Labor and Industrial Relations said it believes some of our findings and recommendations have merit. However, the department expressed concerns about some findings and recommendations. The Department of Budget and Finance said that the program should be general-funded and compete with other general fund programs for resources.

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