Audit of the Employment and Training Fund

A Report to the Governor and the Legislature of the State of Hawaii

Report No. 01-08
April 2001

THE AUDITOR
STATE OF HAWAII

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.

7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.

8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.

9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

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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.

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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Audit of the Employment and Training Fund

A Report to the Governor and the Legislature of the State of Hawaii

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 01-08
April 2001

Foreword

Act 197 of the Regular Session of 2000 directed the State Auditor to conduct an audit of the Employment and Training Fund established by Section 383-128, Hawaii Revised Statutes. The act required us to assess the programs for which expenditures from the fund have been made; the nexus between the revenue sources and expenditures; the moratorium on employer assessments from 1997 through 1998; the characterization of the fund as a special fund or a trust fund; and the feasibility and merit of levying a nominal training charge. This report presents our findings and recommendations.

We wish to express our appreciation for the cooperation and assistance extended to us by officials and staff of the Department of Labor and Industrial Relations (including the Workforce Development Division), the Department of Budget and Finance, and the Department of Accounting and General Services, and by others whom we contacted during the course of the audit.

Marion M. Higa
State Auditor

Table of Contents

Chapter 1 Introduction

Background on the Employment and Training Fund ... 1
Audit Request ... 9
Objectives of the Audit ... 9
Scope and Methodology ... 9

Chapter 2 The Employment and Training Fund's Administration and Financing Weakens Its Accountability

Summary of Findings ... 11
The Fund Has Not Demonstrated Its Effectiveness ... 11
Financing Structure Has Insulated the Fund ... 21
Additional Training Charges to Users Are Feasible But Their Impact Is Not Readily Determined ... 26
Conclusion ... 27
Recommendations ... 28

List of Appendixes

Appendix A Employment and Training Fund Macro Grants Funded ... 31
Appendix B Employment and Training Fund Payments to Micro Training Vendors, FY1999-00 ... 35
Appendix C Responses to Employer Survey Conducted by the Office of the Auditor ... 37

Responses of the Affected Agencies ... 41

List of Exhibits

Exhibit 1.1 Department of Labor and Industrial Relations Employment and Training Fund Program Organizational Chart 3
Exhibit 1.2 Employment and Training Fund Number of Individuals Trained by Company Size, FY1999-00 4
Exhibit 1.3 Employment and Training Fund Participants by Type, FY1999-00 4
Exhibit 1.4 Employment and Training Fund Expenditures by Category, FY1999-00 6
Exhibit 1.5 Employment and Training Fund Revenues and Expenditures, FY1991-92–FY1999-00 8
Exhibit 1.6 Employment and Training Fund Largest, Smallest, and Average Employer Contributions, CY1999 8
Exhibit 2.1 Employment and Training Fund Training Expenditures by Category, FY1999-00 12
Exhibit 2.2 Employment and Training Fund Macro Grant Proposals and Acceptances, CY1997–CY2000 17
Exhibit 2.3 Employment and Training Fund Reported Available Fund Balance, FY1991-92–FY1999-00 24
Exhibit 2.4 Employment and Training Fund Details of Funds Flow, FY1991-92–FY1999-00 25

Chapter 1

Introduction

This audit of the Employment and Training Fund was conducted pursuant to Section 2 of Act 197, Session Laws of Hawaii (SLH) 2000. The act required the State Auditor to conduct an audit of the Employment and Training Fund established by Section 383-128, Hawaii Revised Statutes (HRS).

Background on the Employment and Training Fund

The Employment and Training Fund is a special fund within the Department of Labor and Industrial Relations. The fund, created through Act 68, SLH 1991, was established to assist employers and incumbent workers through innovative programs including, but not limited to, business-specific and upgrade training, new occupational skills, management skills, and support services to improve the long-term employability of Hawaii's people. Its revenues are generated through assessments on private sector employers.

The fund originated as part of a national movement during the 1980s when concern about the U.S. workforce's ability to compete in the international economic arena was high. To enhance economic development or attract new industries, 47 states (including Hawaii) enacted legislation to create over 60 training programs nationwide targeted to private businesses. Approximately ten states have programs similar to Hawaii's, in that they are funded through employer assessments. Unlike federal training programs that target long-term jobless, dislocated workers, and other disadvantaged groups, state-funded programs generally focus on providing upgrade training to individuals at all levels, from workers, supervisors, and managers to owners.

The fund has seen several changes since its 1992 inception

When originally established in 1992, the Employment and Training Fund's assessments were scheduled to cease on December 31, 1996. However, in 1996, the Legislature concluded that the fund had proven valuable to Hawaii's economy and extended the assessments through December 31, 2000. The following year, the Legislature decided that the fund's balance, which had reached approximately $8 million, outweighed its utilization rate and imposed an 18-month moratorium on employer assessments. In 1999, the fund's contracts were exempted from the State's procurement code (Chapters 103D and 103F, HRS) to facilitate timely contracting and to make the fund's moneys more accessible to eligible applicants. Most recently, the Legislature through

Act 197, SLH 2000, again extended the fund's assessments through December 31, 2002. The act also reduced the assessment rates for 2001 and 2002, and required this audit of the fund.

Workforce Development Division oversees the fund

Originally located within the Office of Employment and Training Administration of the Department of Labor and Industrial Relations, the Employment and Training Fund program was moved in 1994 during a departmental reorganization. As illustrated in Exhibit 1.1, the program now falls under the department's Workforce Development Division.

The Employment and Training Fund Section employs five full-time staff consisting of a program coordinator, three program specialists, and a program assistant. In addition, 17 other staff at Workforce Development Division branch offices statewide assist with the fund's activities. Applicable portions of their personnel costs are charged to the fund based on monthly timecards, as is the part-time work of an accountant from the department's Administrative Services Office.

The section office, which oversees the program generally, is responsible for administering what the program refers to as "macro" grants (state- or county-wide awards to businesses, industries, and nonprofit groups and associations). Branch offices in each county are primarily responsible for providing "micro" training grants through the employer referral system described below.

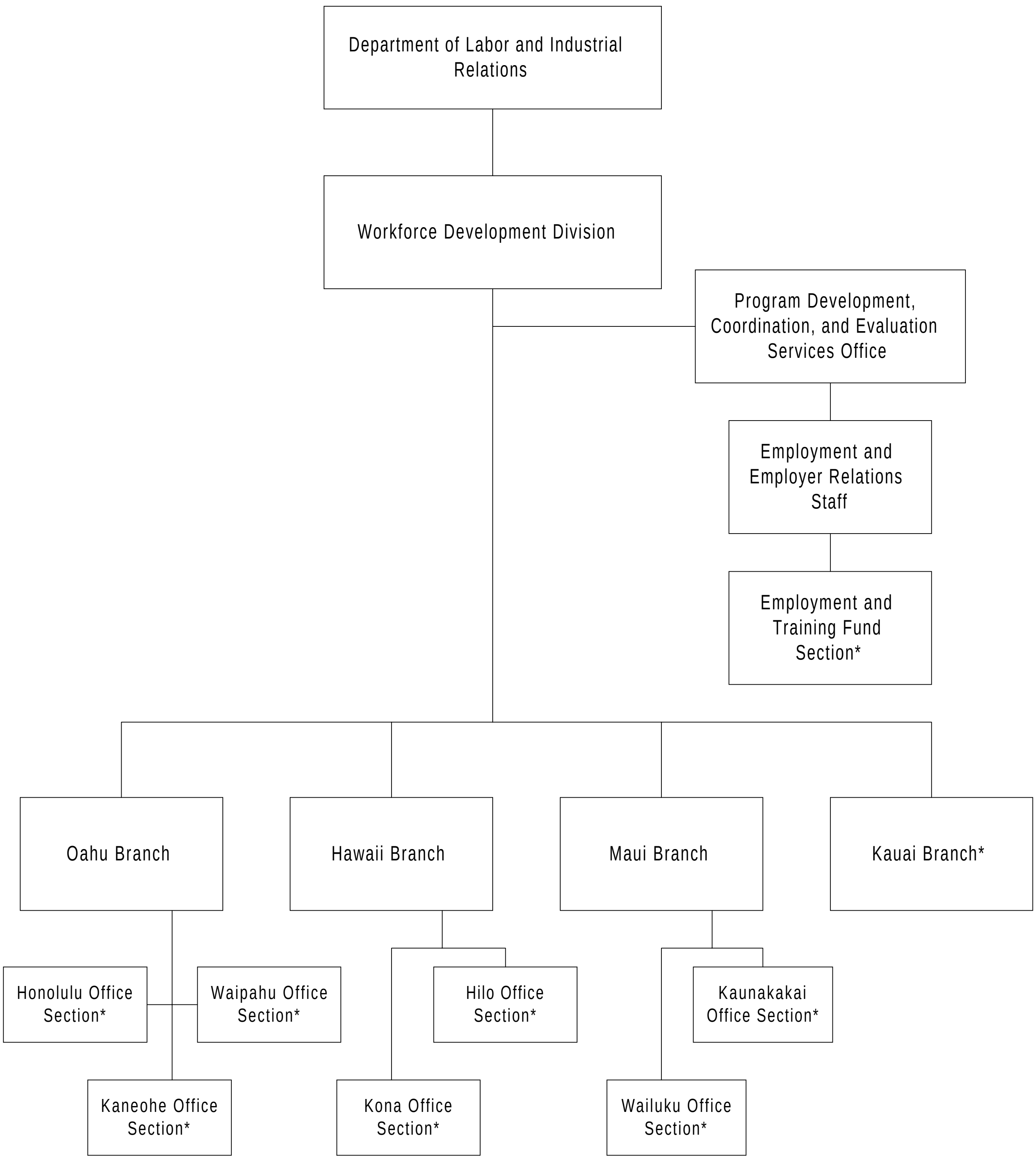
The fund targets small businesses

The aim of the Employment and Training Fund is to benefit industry groups, business associations and consortia, individual businesses, and nonprofit organizations. In particular, one of the fund's highest stated priorities is to serve small businesses. The fund defines a small business as one with 200 or fewer employees. As Exhibit 1.2 shows, over two-thirds of the employees who received skill training through the fund during the past fiscal year were from small businesses.

During FY1999-00, the fund served 664 employers through its macro grant program and 1,846 through its micro training grants.

In addition to serving private employers, the fund nominally serves individuals who are either unemployed or not eligible for federally funded employment and training programs. Exhibit 1.3 shows that about 2 percent of those served by the fund during FY1999-00 were unemployed.

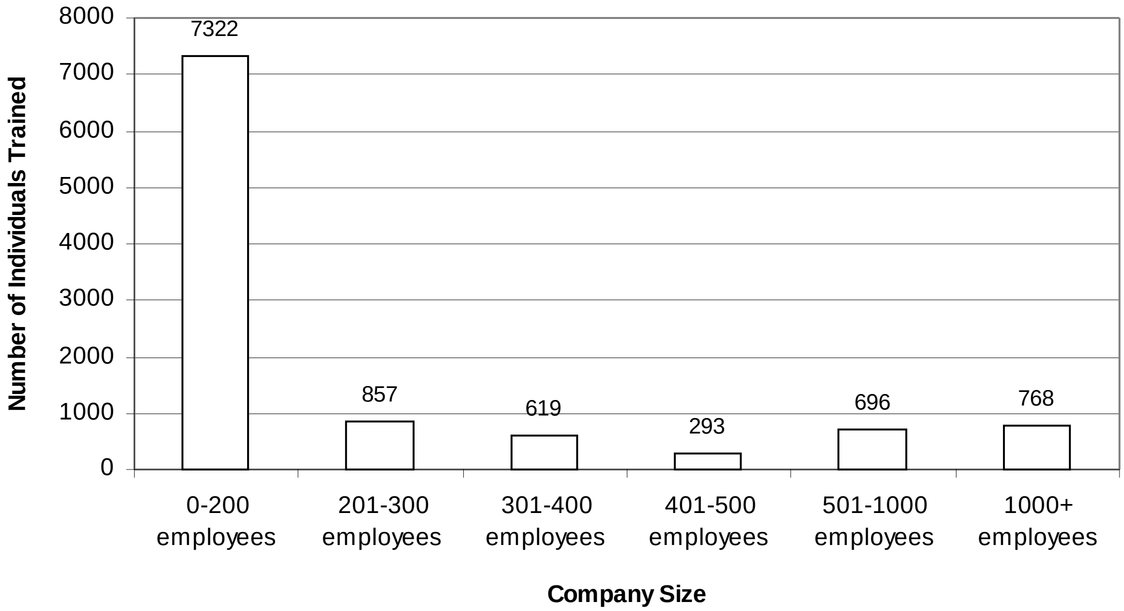
Exhibit 1.1
Department of Labor and Industrial Relations
Employment and Training Fund Program
Organizational Chart



*Indicates key locations of Employment and Training Fund program activities.

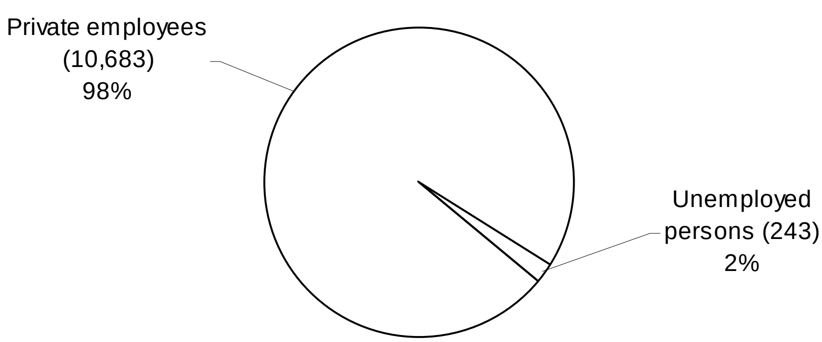
Source: Department of Labor and Industrial Relations

Exhibit 1.2
Employment and Training Fund
Number of Individuals Trained by Company Size, FY1999-00



Source: Employment and Training Fund

Exhibit 1.3
Employment and Training Fund
Participants by Type, FY1999-00



Source: Employment and Training Fund

Fund moneys are distributed through grants

The Employment and Training Fund provides grant moneys for training via three different venues:

- *Statewide and countywide training grants.* Also called “macro” grants, these funds are primarily available to business consortia and industry groups as seed money for ambitious and innovative education and training projects. Macro grants must benefit more than one employer; they require applicants to ensure that training will be sustained after the fund’s support ceases; and they are not designed to support training already available in the community.

- *Employer referrals.* Through this program, individual employers can refer their employees to short-term training courses available at community colleges and through other approved training vendors. Available training includes computer software, customer service, medical terminology, and teambuilding skills classes.

- *Customized training.* Occasionally, employers require training that is unique to an industry or accommodates a particular time schedule. In such cases the Employment and Training Fund acts as a broker between employers and training institutions to deliver the requested training at convenient times and locations. In contrast to the macro grants described above, employer referrals and customized training are considered individual, or “micro” training grants.

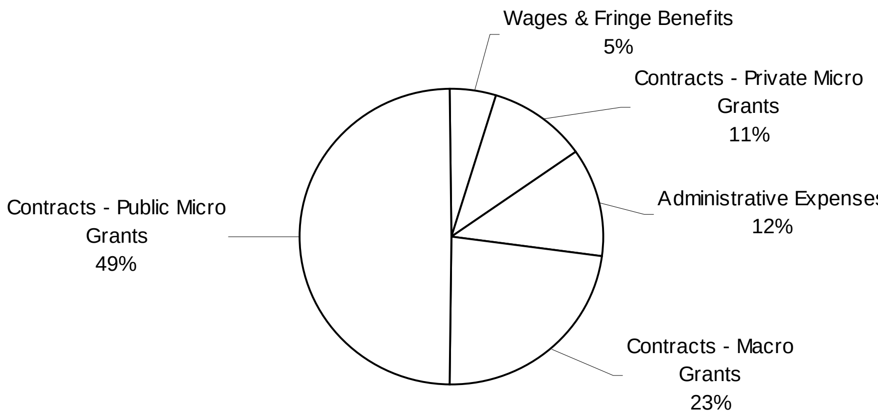
The fund spends a majority of its moneys on training expenses. During FY1999-00, 83 percent of the fund’s expenditures, which totaled almost $4.8 million, were for contractual (training) expenses. Exhibit 1.4 shows the breakdown of the fund’s expenditures by category during FY1999-00.

Macro grants

Macro grants, which are generally awarded for a year-long period, are used to fund innovative or cutting edge training that benefits a group of employers rather than single employers. Grants are awarded through a request for proposal process, and applications are first reviewed by a county advisory committee before being accepted or denied by the director of the department.

During FY1999-00, macro grants constituted slightly over $1 million, or 27 percent, of the fund’s contractual (training) expenses. During calendar year 2000, the fund provided moneys for 13 macro grants for training projects in the areas of occupational safety and health, cosmetology, early childhood care, restaurant operations, human services, indoor air quality, business management, computing, welding,

Exhibit 1.4
Employment and Training Fund Expenditures by Category, FY1999-00



Source: Department of Labor and Industrial Relations

landscaping, forestry, and aquaculture. These projects trained approximately 2,500 clients from several hundred different employers. As of November 2000, the fund had financed 84 macro grants since its inception, totaling approximately $8 million. A complete list of macro grant projects financed through November 2000 is included as Appendix A.

Micro grants

Unlike macro grants, micro grants are used to fund short-term, individual training classes. Courses are paid for by the fund on a reimbursement basis to an existing training vendor. Under the micro grant (or employer referral) program, employers first choose from courses offered by approved training vendors and then receive approval from the fund to send their employees to a particular training course. Upon completion of the class and proof of employee participation, the fund reimburses the vendor up to $500 of the cost of the course. During FY1999-00, the most frequently requested micro training was for computer, business/ managerial, human services, travel, health industry, and "soft" training courses such as professional development training in leadership skills and communication.

Approved micro vendors fall into two categories: private and public. The fund has contracts with 21 private vendors to provide training services to fund-sponsored participants. During FY1999-00, private micro vendors garnered just over half a million dollars (nearly 13 percent) of all contractual expenses, which totaled over $3.9 million. The remaining micro grant payments went to public micro vendors including the University of Hawaii, the Department of Education's community schools, and community colleges statewide. During FY1999-00, public vendors received about 60 percent, or $2.4 million, of the fund's training moneys. A complete list of payments to micro vendors during FY1999-00 is included as Appendix B.

In total, micro grants accounted for close to three-quarters (73 percent) of the fund's contractual (training) expenses and nearly two-thirds (60 percent) of its overall expenses during FY1999-00. For the same fiscal year, clients were enrolled in over 10,000 classes through such micro training grants. The fund has paid for nearly 30,000 training enrollments since its inception.

Employer assessments provide primary revenues

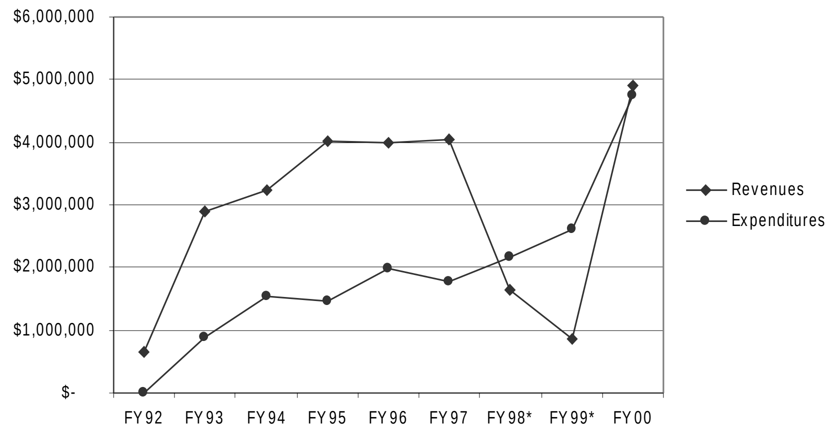
The Employment and Training Fund's revenue is generated through employer assessments based on unemployment insurance contributions. By statute, every employer in the state—with only two types of exceptions—must pay a quarterly Employment and Training Fund assessment, or tax. Only those employers who have selected an alternative method of financing liability for unemployment compensation benefits and those who have been assigned an unemployment insurance contribution rate of either zero percent (the minimum) or 5.4 percent (the maximum) are not required to pay into the fund. The fund also collects interest income.

Throughout its existence, the fund's assessment rate has remained at .05 percent of taxable wages (except during the period of the moratorium from July 1997 through December 1998). However, pursuant to Act 197, SLH 2000, the assessment rate will be reduced to .03 percent of taxable wages in 2001 and .01 percent in 2002, after which all of the fund's assessments are to cease.

The department's Unemployment Insurance (UI) Division collects and accounts for both the UI and Employment and Training Fund assessments. Fund moneys are maintained in a special interest-bearing account and carry over from year to year.

Since its inception, the fund has collected over $26 million in assessments and interest income. Exhibit 1.5 depicts annual revenues and expenditures over the fund's history.

Exhibit 1.5
Employment and Training Fund
Revenues and Expenditures, FY1991-92–FY1999-00



* Moratorium in effect from July 1, 1997 through December 31, 1998.

Source: Department of Labor and Industrial Relations

Although assessment revenues, which are collected on a quarterly basis, average about $3.6 million a year, individual employers' contributions to the fund vary considerably. Approximately 25,000 employers contributed to the Employment and Training Fund during calendar year 1999; Exhibit 1.6 shows the largest, smallest, and average employer contributions to the fund during that year.

Exhibit 1.6
Employment and Training Fund
Largest, Smallest, and Average Employer Contributions, CY1999

Largest contribution by a single employer	$ 37,937.86
Smallest contribution by a single employer	$ 0.20
Average employer contribution	$ 179.99

Source: Department of Labor and Industrial Relations, Unemployment Insurance Division; and Office of the Auditor calculation.

Audit Request

In directing us to audit the Employment and Training Fund, Act 197, SLH 2000 specifically required us to assess:

- The programs for which expenditures from the fund have been made;
- The nexus between the revenue sources and expenditures;
- The moratorium on employer assessments from 1997 through 1998;
- The characterization of the fund as a special fund or a trust fund; and
- The feasibility and merit of levying a nominal training charge.

These issues are addressed in Chapter 2 of the report.

Objectives of the Audit

1. Assess whether the Department of Labor and Industrial Relations effectively and appropriately administers the Employment and Training Fund program.
2. Assess the financing of the fund.
3. Make recommendations as appropriate.

Scope and Methodology

The audit primarily focused on evaluating the Workforce Development Division's administration of the Employment and Training Fund program and on the financing of the fund. We assessed whether funds were used in accordance with the fund's purpose and whether programs funded met the needs of employers and workers. To accomplish the latter, we conducted an independent survey of employers statewide and reviewed participant evaluations of training sessions conducted under the fund. Our survey questionnaire was mailed to 641 randomly selected employers statewide to obtain their opinions regarding the Employment and Training Fund. The survey had a response rate of 39 percent; individual answers had a 95 percent confidence level. Appendix C summarizes the survey's responses. We also assessed the program's grant process and its monitoring of funds dispensed.

In addressing the appropriateness of the fund's designation, we assessed the nexus between the fund's revenue sources and its expenditures—specifically, the linkage between benefits and charges to users of the fund. The moratorium on employer assessments from 1997 through 1998, the characterization of the fund as a special fund or a trust fund, and the feasibility and merit of levying a nominal training charge were also assessed.

We reviewed relevant state laws, administrative rules, and departmental policies and procedures. We also reviewed national reports and studies on employment and training programs around the country. We interviewed staff and officials from the Department of Labor and Industrial Relations' Employment and Training Fund program, Workforce Development Division, and Unemployment Insurance Division; county advisory committees; and various fund vendors. We examined project files at the state Employment and Training Fund office and accounting information at the department's Administrative Services Office.

Our focus was on fiscal years 1996-97 through 1999-00. Specific audit tasks varied due to changes in record-keeping techniques by the program. Our work was performed from May 2000 through February 2001 in accordance with generally accepted government auditing standards.

Chapter 2

The Employment and Training Fund's Administration and Financing Weakens Its Accountability

The purpose of the Employment and Training Fund is to assist employers and incumbent workers through innovative training programs designed to improve the long-term employability of Hawaii's people. As directed by the Legislature through Act 197, SLH 2000, we examined the fund's programs, its linkage between revenues and expenditures, the moratorium, the fund's characterization as a special or trust fund, and the feasibility of levying additional training charges to users. Overall, we concluded that elements of the fund's administration and financing undermine its accountability.

Summary of Findings

1. The Employment and Training Fund has not demonstrated its effectiveness. The fund's monitoring oversight is inadequate; its macro grant process is lengthy and some awards are questionable; and its limited publicity hampers access to program funds.

2. 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. Its revenues have consistently exceeded its expenditures. The Legislature may wish to consider financing program activities through the State's general fund.

3. Additional training charges to participants are feasible, and in some instances are already being utilized. Their impact is not readily determined, however.

The Fund Has Not Demonstrated Its Effectiveness

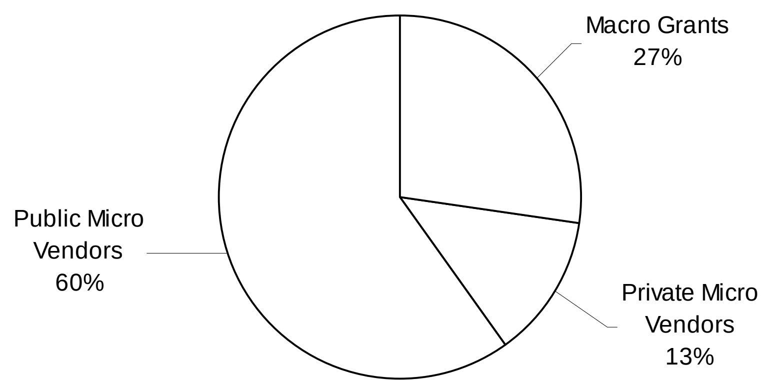
Hawaii's state budgeting approach, the Planning, Programming, and Budgeting (PPB) system, as well as state laws, show the importance the Legislature places on program evaluations. Program evaluations help provide evidence that a program's activities remain consistent with its mission and are in the interest of those whom it serves.

However, the Employment and Training Fund has not conducted any meaningful, substantive evaluations of its programs. Insufficient evaluations hinder an accurate assessment of the worth of the fund and the effectiveness of its programs. Moreover, we found that the fund's monitoring oversight is inadequate; its process for awarding macro grants is lengthy; some grants are questionable; and limited publicity hampers potential users' access to program funds.

Monitoring and program evaluation are inadequate

During FY1999-00, the fund spent nearly $4 million on training grants. Of this amount, just over $1 million (27 percent) was spent on macro grants, about half a million dollars (13 percent) went to private micro vendors, and more than $2.3 million—60 percent of the fund's training expenses—went to public micro vendors. Exhibit 2.1 depicts these ratios.

Exhibit 2.1
Employment and Training Fund
Training Expenditures by Category, FY1999-00



Source: Employment and Training Fund

Our review found that although the fund spends the greater part of its grant moneys on public micro vendors, it does not require any program evaluations or reports from these vendors. Furthermore, the requirements for macro grantees and private micro vendors are neither substantial nor rigorously enforced. The result of this laxity is that the fund spends a majority of its moneys on courses whose program quality is not monitored.

Minimal monitoring criteria are not enforced

We found only one statutory requirement and two administrative rules that pertain to monitoring the fund's program moneys. There were also very few reporting, invoicing, and evaluation requirements specified in the program's contracts with macro grantees and micro vendors.

Nevertheless, a number of macro grant recipients and the majority of micro vendors were not in compliance with even these minimal requirements.

By statute, every grant or subsidy must be monitored according to rules established by the director of labor and industrial relations. In addition, the Hawaii Administrative Rules require training providers and employers who receive funds from the program to submit interim status reports and final reports as specified in their contracts or agreements. The rules also specify that the department shall monitor the projects and that interim reports may be used to determine the need for on-site visits or periodic meetings.

The various submissions required of macro grantees and micro vendors in addition to these statutory and administrative requirements are minimal:

- *Macro grants.* Several elements are mandated by the fund's internal policies and procedures and by its executed macro contracts. However, submission time frames and required details vary somewhat between internal and contractual (and even between contract) documents. Standard requirements consist of monthly fiscal reports, bimonthly progress reports, program and management information (to be included in progress reports), and a final report. However, we found that while monitoring requirements are specified in the fund's contracts, program staff do not consistently enforce these requirements. We also found little or no written evidence of follow-up contact by program staff to ensure that required macro grant reports were submitted.

  In addition, program staff at the statewide office, who are primarily responsible for administering and monitoring macro grants, lack an adequate system of filing and documenting their monitoring efforts. Our review of monitoring activities showed that efforts that may have been made to request missing information or clarification of submissions were not documented and therefore not verifiable.

- *Private micro vendors.* Private micro vendors, who are under contract with the fund, are required to submit cumulative quarterly reports, daily attendance records, requests for payment (invoices) within 30 days, and participant evaluations. We found that branch staff at the division's county offices are aware of various micro vendors' failure to submit required information but make little or no effort to follow up with such vendors to request missing items.

- *Public micro vendors.* Of greater concern, we found that public micro vendors—who received 83 percent of all micro grant funds in FY1999-00—were not contractually bound to the fund at all. The fund considered public micro vendors (that is, the University of Hawaii, its community colleges, and the Department of Education's community schools) to be qualified as micro vendors simply by virtue of being state agencies.

  Public micro vendors generally have had no formal relationship requirements with the fund. The exception to this is the letters of agreement between the Honolulu branch office and Kapiolani Community College. These letters, however, apply only to specific courses and merely state the dates, times, locations, and prices of the classes. The result of this informality is that the fund has been unable to define or enforce the parameters of its relationships with public vendors.

  We note, however, that the fund has recognized this inconsistency between private and public micro vendors. It now intends to require public micro vendors to complete the same request for proposal process as private vendors and sign contractual agreements with the fund. This intention was made clear by the fund's public issuance of a request for proposals on October 22, 2000.

Not only do submission requirements differ among various types of vendors, but staff around the state are also unclear about which submissions are required of whom. Branch staff—including branch managers and even the fund's program coordinator—are not clear how reporting and submission requirements differ between private and public micro vendors. Moreover, they are not in agreement over the required time frames for submitting invoices, attendance sheets, and participant evaluations.

Program evaluations are not substantive and requirements are inconsistent or ignored

The program evaluation elements required of micro vendors and macro grantees are not substantive. As discussed above, macro grantees have minimal program evaluation reporting requirements, but even these vary among contracts; private micro vendors have only two reporting requirements; and public micro vendors, who are not under contract with the fund, have no program evaluation requirements.

For example, private micro vendors are required by contract to ensure that all participants sponsored by the fund evaluate the course on state evaluation forms upon completion of their training. Such forms must be submitted to the Employment and Training Fund no later than 48 hours following course completion. However, we found that vendors did not consistently turn in evaluations as required. Several branch offices reported that they received participant evaluations “randomly” from micro vendors. Furthermore, there is no official state evaluation form. Evaluations that are submitted, which are completed on vendors’ own evaluation forms, vary in their degree of detail. We also found that evaluation forms are generally retained only by the division’s branch offices; they are not forwarded to the fund’s statewide office. Branch office staff reported that they look at participant evaluations and use them informally to assist employers in deciding which vendors to utilize.

The second, and only other, reporting requirement for private micro vendors is that they submit cumulative quarterly reports to the fund. Such reports are not substantive, however. Each vendor is merely required to list the number of courses it has canceled (but not those offered); the number of participants it has trained who were sponsored by the fund; and the total amount the State has paid the vendor to date.

Macro grantees, on the other hand, must comply with several program evaluation requirements. For instance, every macro grant contract requires a program evaluation site visit to be performed at least once during the contract period (generally one year). In practice, however, site visits are conducted some time after the first six months of the contract period and in conjunction with a fiscal monitoring site visit. We found only one instance in which a site visit was performed more than once during the contract period. Furthermore, site visits are not performed at all for micro vendors (private or public), either as part of the application process or during the contract period.

In addition, although macro grantees have more reporting and evaluation requirements than micro vendors, requirements vary among contracts. For example, all macro grantees are required to submit bimonthly progress reports, but only some grantees are required to submit the actual participant evaluations along with the progress report. Other grantees are merely required to have evaluations available should the fund request them. However, division staff reported that to date, the fund has never requested such evaluations.

Users generally report positive feedback, but evaluation instruments are limited

We examined whether program users were satisfied with their experiences with the fund. To do so, we reviewed testimony submitted to the Legislature and participant evaluations from completed training courses, and conducted a survey of 641 employers around the state. (Appendix C shows full results of the survey.)

We found that most employers and workers who have utilized the Employment and Training Fund have been satisfied with their experiences. Survey results showed that two-thirds of employers who had used the fund reported the training they received was very beneficial to their businesses; 100 percent said their employees had become more productive as a result of the training they received through the fund.

However, these instruments provide a limited picture of the fund's efficacy. In order to accurately assess the fund's worth and areas of weakness, the fund needs to undertake meaningful program evaluation based on data from sources other than reports from participants. Suggestions for accomplishing this are discussed below.

National study provides suggestions for meaningful program evaluation

Workforce Development Division officials claim that the fund has not treated program evaluation as a priority because of its tenuous status as a program always on the verge of termination. Officials said they preferred to focus on providing funds to employers and trainees rather than increasing administrative costs by undertaking complicated programmatic evaluations. Although testimonial evidence from those who have utilized the fund is generally positive, the fund's lack of formal programmatic evaluation leaves it open to criticism and hinders it from making needed improvements in its operations.

A 1989 report published jointly by the National Commission for Employment Policy and the National Governors' Association entitled "State-Financed, Workplace-Based Retraining Programs" offers suggestions for conducting meaningful programmatic evaluations. Specifically, programs such as the Employment and Training Fund should develop a performance assessment system that measures direct program outcomes, and an impact evaluation system that directly measures the net impact of the program on unemployment and job retention. The focus of these assessment systems should be on four major impact measures: net job retention in participating companies; direct and indirect economic impact of retrained workers on the state economy; net earnings gains of retrained workers; and net savings on unemployment insurance.

Macro grant process is lengthy and some awards are questionable

Macro grants, which are generally year-long grants of $100,000 or less, are designed to provide seed money for "cutting edge" education and training curricula and programs. They are not meant to support training already available in the community.

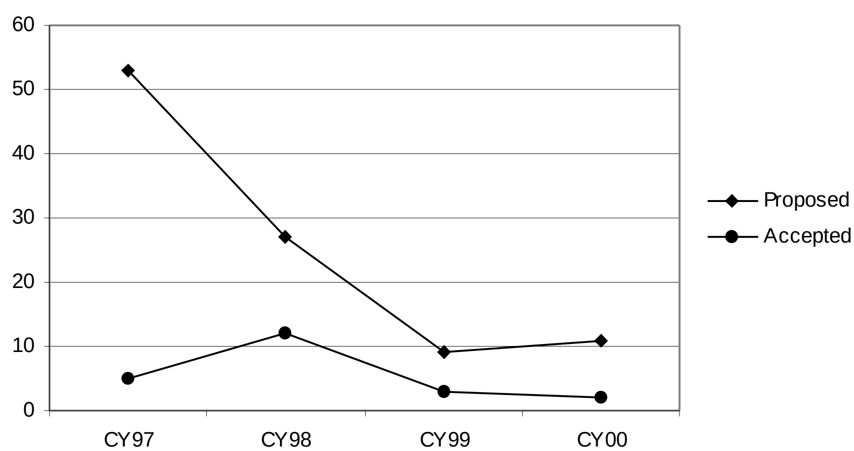
The fund's macro grant application guide states that following submission of the application, there is a two-month turnaround for accepting approvals and an additional month to develop the contract. This indicates a total of three months for the macro grant application process. However, we found that the average macro grant took nearly a year (11 months) from the time the application was submitted until the contract was executed. This is almost four times longer than the amount of time described in the macro grant application guide and more than double that claimed by staff of the Workforce Development Division.

Employment and Training Fund grant applications should be reviewed and either awarded or denied within a reasonable time frame. Historically, the length of time involved in the grant process has been a source of complaint among employers. We found letters in the project files indicating frustration that the process was taking so long. Fund staff also reported that employers not only find the award process too lengthy, but feel there is too much effort involved in organizing an industry consortium, finding an entity to administer the grant, and preparing the application.

Demand for macro grants is declining

Delays in the application process may be contributing to a decreasing demand for macro grants. As shown below, the number of macro grant proposals has been declining over the past several years. Exhibit 2.2 depicts proposals submitted versus those awarded for the calendar years 1997 (the first year the fund kept statistics on this information) through 2000.

Exhibit 2.2
Employment and Training Fund
Macro Grant Proposals and Acceptances, CY1997–CY2000



Source: Employment and Training Fund

Ill-defined county advisory committees may delay the application process

The fund's internal policies require that each macro grant first be reviewed by a fund program specialist, then referred to an advisory committee before being approved by the Workforce Development Division administrator and finally by the department's director.

Advisory committees, which exist in each county, offer opinions but not binding decisions on grant proposals. We were initially told that advisory committees meet quarterly to review all macro grant applications pertaining to their respective counties. However, we found that the committees differed significantly in the frequency of their meetings (some meet bimonthly; one has not met since 1999). Also, opinions differ as to the importance of the committees' contributions to the grant review process. Furthermore, the committees' purposes and authority remain ill-defined.

For example, only three of the four advisory committees have bylaws or articles of incorporation, and none make any reference to the committees' roles in reviewing Employment and Training Fund grant applications. In addition, county advisory committees are purely voluntary coalitions of local business representatives; the committees are not under any controlling authority.

Moreover, county advisory committees do not formally address the grant proposal's budget. Some committees meet as a group to discuss proposals, while others meet as subgroups. Another's members review and submit comments to the division independent of one another. The combined effect of these factors makes the committees' relationships to the department, division, and fund nebulous.

We did not examine the advisory committees in detail or fully address their impact on the timeliness of grant review. However, any additional step in the review process is likely to add to the time involved. Because of this, combined with the ill-defined nature of the advisory committees, the county advisory committees' role in the macro grant review process is open to question.

Some awards are questionable

As illustrated in Appendix A, the Employment and Training Fund has awarded approximately 84 macro grants totaling over $8 million. These grants have provided training to more than 20,000 people since the fund's inception in 1992. The cost per trainee for a macro grant project has ranged from $5 to over $11,000; the average cost is $384 per trainee.

The program's criteria for macro grants states that the project should:

- Aggregate a community training need;
- Have sufficient justification;
- Not duplicate or supplant existing community training initiatives;
- Be consistent with the long-term goals of the businesses involved;
- Become self-sufficient;
- Have actual dollar or in-kind support;
- Include a detailed, line item budget; and
- Have clearly defined specific objectives and measurable outcomes.

Although these guidelines are addressed in the program's "review criteria" for macro grant applications, we were unable to identify how, or whether, the fund applies these criteria. Project files do not contain documentation of how projects selected for funding have met the criteria. In the absence of such documentation, we were unable to compare the merit of projects awarded versus those denied funding. However, we noted that some awards resulted in small numbers of trained individuals and/or high per pupil costs.

For example, we reviewed a project administered by the Roman Catholic Church to sponsor a cosmetology school on the island of Hawaii. The project, which ran from September 1999 through December 2000, was funded at $100,000 and had trained nine people as of November 2000. Similarly, the fund approved a grant to the University of Hawaii Community Colleges entitled, "Motorola Quality of Service Project," which trained 43 people over a period of two years, at a cost of $8,140 per person. The fund has also sponsored such grants as the Orbital Welding Project, administered by the Joint Apprenticeship Training Committee for the Plumbing and Pipefitting Industry, which trained only six people at a cost of $3,937 per person; and an award to the Honolulu Shipyard for Small Waterplane Area Twin Hull Shipbuilding Technology at a cost of $3,656 for each of 27 people over a year and a half.

Limited publicity hampers access to funds

Despite the fact that most employers and workers who have utilized the Employment and Training Fund report satisfaction with their experiences, we found that a majority of employers in the state do not know of the fund’s existence or its purpose, and that the fund’s publicity is insufficient. Lack of awareness or accurate information regarding the fund precludes a large proportion of potential participants from utilizing the fund.

Division staff reported that the fund’s publicity efforts include talking to employer groups and chambers of commerce; advertising through newspapers and the fund’s quarterly newsletter; attending employment seminars; and utilizing a local television station’s promotion of the fund through a weekly employment segment. However, we found little evidence of such activity. Although the fund reported having spent $13,589 on publicity during FY1999-00, these expenditures were limited to legal advertising regarding macro grants and the request for proposals for micro vendors.

In addition, almost half of the mailing list for the fund’s newsletter is duplicative. The list comprises 451 entities, including universities, community colleges, county mayors, chambers of commerce, industry-focused organizations, state legislators, and a few private businesses. Nearly a fifth of the names even appeared on the list in triplicate, and two individuals appeared on the list four times.

Moreover, our survey of 641 employers around the state revealed that a majority of potential users of the fund (employers) are unaware of its existence. Nearly 60 percent of respondents were not aware of the fund prior to receiving our survey. Applied to all employers statewide, this translates to about 15,664 out of 26,961 employers (as of December 31, 1999) who were unaware of the fund’s purpose or existence.

Over a third of the employers in our survey who had heard of the fund and provided comments specifically mentioned that efforts to make employers aware of the fund’s purpose and programs need to be improved. Interviews with private micro vendors (who are under contract with the fund) also revealed that most had learned of the fund by contacting the department or the Workforce Development Division themselves. Employers’ suggestions for improving publicity included: advertising the types of services offered, informing all Hawaii businesses of the fund’s existence via mail or fax, providing a list of programs offered, informing employees about courses offered, and sending employers an annual list of approved training vendors and training application forms.

Financing Structure Has Insulated the Fund

The Employment and Training Fund was established as a special fund financed by assessments on employers. This financing structure may not be desirable or appropriate because it insulates the fund from the more comprehensive legislative scrutiny and oversight afforded to general-funded programs. Moreover, the fund's special-fund status, as well as its assessment revenues—which have consistently exceeded its expenditures—have ensured its automatic support. At one point, the Legislature even imposed a moratorium on assessments in an effort to better balance the fund's revenues against its expenditures. The Legislature may wish to consider financing program activities through the State's general fund instead.

Special-fund status and assessment revenues ensure automatic support for the fund

As directed by the Legislature, we examined the nexus between the Employment and Training Fund's revenue sources and expenditures. In conducting our analysis, we used Act 240, SLH 1990, which specifies criteria we use to recommend continuation or repeal of a particular fund. The act indicates that a non-general fund should reflect a clear link between benefits sought and charges made upon users or beneficiaries of its programs. This linkage should be appropriate, as opposed to primarily providing the program or its users with an automatic means of support that is removed from the normal budget and appropriations process.

The Employment and Training Fund, whose revenues are generated through an assessment (tax) on employers related to their Unemployment Insurance (UI) tax rate, is designed to benefit employers and workers. However, the fund's revenue sources and its expenditures are not clearly linked in all cases.

Revenue sources and expenditures are not tightly linked

Although workers receive direct benefits through the fund's training services, they do not specifically contribute to the fund, showing a lack of linkage. Employers provide the fund's revenues, but they do not generally receive direct benefits from fund-sponsored training. In theory, they profit by having better skilled employees on the job. Therefore, there is a partial linkage between benefits sought and charges made upon the users of the Employment and Training Fund program.

Other factors further weaken the linkage:

- By statute, unemployed persons who do not otherwise qualify for federal or state job training programs are eligible to access the fund. Although such persons do not contribute to the fund, about 2 percent of all Employment and Training Fund users during FY1999-00 were unemployed (see Exhibit 1.3).

- Employment and Training Fund literature indicates that government agencies may apply for funding. Because the fund is supported solely through assessments on private employers, government agencies have no connection to fund contributions. (We note that division staff informed us the fund does not serve governmental employees because their employers do not contribute to the fund.)

- Employers who fall within the upper- or lower-most Unemployment Insurance (UI) tax brackets likewise do not contribute to the fund, but are still eligible to utilize it. Again, no connection exists between benefits sought and charges made upon users in these instances.

Trust fund approach further threatens the fund's accountability

Our audit impetus (Act 197, SLH 2000) specifically directed that we consider the Employment and Training Fund's characterization as a special or a trust fund. In doing so, we examined the definitions of each type of fund, their implications, and the way the fund is treated among various state agencies. We concluded that both of these non-general funded approaches reduce the Legislature's ability to oversee the fund and its activities, but that a trust fund approach provides the greatest degree of freedom—and therefore the least accountability—for the fund.

Section 37-62, HRS, defines a special fund as one whose moneys are dedicated or set aside by law for a specified object or purpose, but excluding revolving and trust funds. A trust fund is then defined as one in which designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes.

The designation of any fund as "special" or "trust" has significant consequences for its accountability. For example, special fund moneys must be appropriated, but trust funds may be expended without appropriation. Moreover, special fund moneys may lapse, but trust funds do not. In addition, unless specifically exempted, special funds are subject to central service assessments by the Department of Budget and Finance, while trust funds are automatically waived from this fee.

We found that in some circumstances, the Employment and Training Fund's status has informally evolved from a special to a trust fund.

Consistent with the law, the Legislature appropriates the Employment and Training Fund as a special fund. Likewise, the Department of Accounting and General Services and the Department of Budget and Finance treat the fund as a special fund for accounting purposes.

However, for certain other purposes, the Department of Budget and Finance and the Department of Labor and Industrial Relations treat the fund as a trust fund. For example, the Department of Budget and Finance has never charged the Employment and Training Fund a central service assessment fee, as is normally required of special funds. This waiver was based on a request for exemption from the Department of Labor and Industrial Relations and a subsequent, informal opinion from the attorney general's office stating that the fund "is a trust fund or serves the function of a trust fund." Similarly, the Department of Labor and Industrial Relations also identified the fund as a trust fund during our 1997 review of its revolving and trust funds (Report No. 97-20).

These ambiguities should be clarified and reconciled. If the Employment and Training Fund's programs continue to be supported outside the general fund, then executive branch agencies should treat the fund consistently as a special fund as designated by law.

The fund satisfies the "specific object or purpose" provision of a special fund because it was expressly established to assist employers and workers in improving the long-term employability of Hawaii's people. Moreover, the fund does not clearly fall within either definition of a trust fund under Section 37-62, HRS. It is neither one in which "designated persons or classes of persons have a vested beneficial interest or equitable ownership" nor one which was "created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes." Furthermore, altering the fund's status to a trust fund could result in its moneys escaping the appropriations and lapsing processes—key elements of fiscal and program accountability.

Legislature may wish to consider general funding

Another alternative exists for funding the Employment and Training Fund's programs. The Legislature may wish to consider placing the program under the purview of the general fund. This would heighten the degree of legislative oversight and program accountability for the fund.

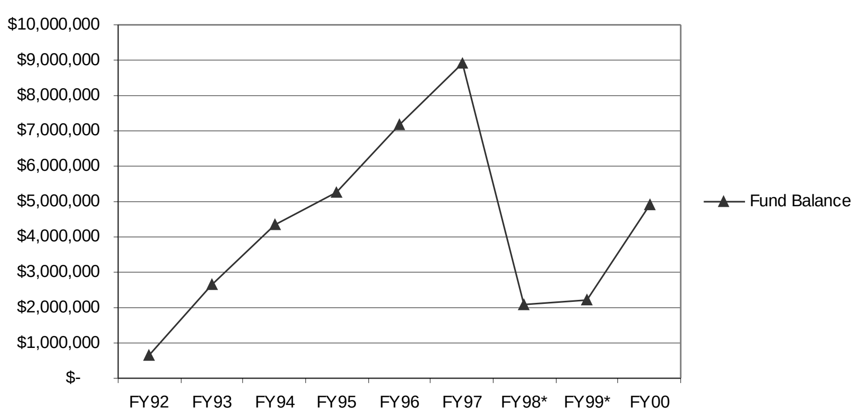
Three strong reasons exist for changing the Employment and Training program's funding from special- to general-funded. First, the fund does not fully comply with the criteria for special funds. Specifically, the fund does not show a clear linkage between benefits sought and charges made upon its users in all cases. Second, special funding not only protects the fund from full legislative scrutiny—and therefore accountability to the public—but also provides an automatic means of support for the program. Third, revenues are currently provided through a tax on some, but not all, businesses. This mechanism may be seen as unfair, inequitable, or an unnecessary burden to employers since not all businesses take part in the fund's training activities.

Moratorium on assessments was warranted

Historically, the Employment and Training Fund has been over-funded—that is, its revenues have significantly exceeded its expenditures. After only five years of operation, the fund's balance grew to more than $8 million. Appropriately, the Legislature therefore sought to reduce the fund's outstanding balance by imposing a moratorium on employer assessments. The Legislature also intended to provide a measure of relief for employers by temporarily reducing their tax burden. Through Act 194, SLH 1997, a temporary moratorium on assessments was made effective July 1, 1997 through December 31, 1998.

As Exhibit 1.5 showed, the fund's expenditures exceeded its revenues for the first time during FY1997-98 and FY1998-99 (during the moratorium). This caused a net drop in the fund's balance. Accordingly, Exhibit 2.3 illustrates figures reported by the fund: that its available balance dropped by 76 percent—from $8.9 million to almost $2.1 million—in the first year of the moratorium.

Exhibit 2.3
Employment and Training Fund
Reported Available Fund Balance, FY1991-92–FY1999-00



* Moratorium in effect from July 1, 1997 through December 31, 1998.

Source: Department of Labor and Industrial Relations

Reported fund balance was misleading

Although the apparent fund balance dropped substantially during the first year of the moratorium, we found that much of this decrease was due to a dramatic increase in the fund's encumbrances. Exhibit 2.4 details the fund's assessment and interest revenue, expenditures, total fund balances, encumbrances, and available fund balances for FY1991-92 through FY1999-00. Based on total fund balance, which excludes encumbrances, the fund experienced only a 5 percent decline in the first year of the moratorium, from $11.2 to $10.7 million. Encumbrances more than tripled in the same year, from $2.3 to $8.6 million.

Exhibit 2.4
Employment and Training Fund
Details of Funds Flow, FY1991-92–FY1999-00

Fiscal Year	Assessment Revenue	Interest Revenue	Expenditures	Total Fund Balance	Encumbrances	Available Fund Balance
91-92	646,864	-	-	646,864	-	646,864
92-93	2,864,994	32,391	(892,592)	2,651,657	-	2,651,657
93-94	3,150,717	78,761	(1,528,818)	4,352,317	-	4,352,317
94-95	3,791,522	235,930	(1,469,085)	6,910,684	(1,630,459)	5,280,225
95-96	3,667,233	332,756	(1,982,656)	8,928,017	(1,761,568)	7,166,449
96-97	3,707,698	331,386	(1,761,074)	11,206,027	(2,280,806)	8,925,221
97-98	1,065,220	588,510	(2,160,424)	10,699,333	(8,600,544)	2,098,789
98-99	492,915	373,346	(2,610,819)	8,954,775	(6,718,687)	2,236,088
99-00	4,538,695	361,104	(4,751,159)	$ 9,103,415	$ (4,208,167)	$ 4,895,248
Total	$ 23,925,858	$ 2,334,184	$(17,156,627)			

Source: Department of Labor and Industrial Relations

The bulk of this increase was due to administrative encumbrances. Although the fund's only contracts that specify payment amounts are for macro grants, the fund also encumbers two other types of expenditures: (1) the annual administrative fee it pays to the Unemployment Insurance Division (which administers the computer system used to track Employment and Training Fund revenues); and (2) the budget for all branch office operations relating to the fund. The latter includes both fund-related personnel costs and the entire budget for micro training expenditures statewide. Despite the growing numbers of enrollees in micro training classes over the past several years, this dramatic increase in the fund's administrative encumbrances raises concerns about how the fund chose to portray its available balance.

Encumbrances are not lapsed in a timely fashion

In addition to the fund's practice of encumbering moneys not strictly for contractual—but rather for budgeting—purposes, we also found that many encumbrances are not lapsed in a timely fashion. Several contracts we reviewed showed no changes in encumbrances during a fiscal year, indicating no expenditure or lapsing activity.

We even found a number of agreements whose balances were still encumbered after several years. While the fund's macro grant contracts occasionally run for more than a year or do not coincide with a fiscal year, administrative encumbrances should not carry over for more than a single year. We identified 13 administrative encumbrances during the period FY1994-95 through FY1999-00 that totaled over $15 million. Of these, only one was entirely disencumbered (meaning its balance of $2.8 million was either expended or lapsed) within one fiscal year.

By encumbering and neither lapsing nor spending funds, public funds are unnecessarily committed. This practice distorts the State's financial status. Moreover, the Legislature was misled into believing that a smaller balance existed in the fund than was actually the case, and that the moratorium was therefore having its intended effect of lessening the burden on employers.

Additional Training Charges to Users Are Feasible But Their Impact Is Not Readily Determined

As the Legislature requested, we examined the feasibility and merit of imposing a nominal training charge on users of the Employment and Training Fund's programs. We found that such charges are already being imposed in some instances but that their impact is not readily determined.

Some argue that levying additional fees for training classes makes a program seem more valuable and desirable. If so, we would expect to see a rise in attendance rates at programs where such fees are charged. Similarly, attendance should be poorer at programs where additional fees are not charged.

We reviewed attendance rates at macro grant training sessions where additional fees varied. Most macro grant contracts allow additional fees to be charged upon approval by the fund. However, only one project out of 15 was specifically approved, and was charging, additional fees to its participants. Because instances of charging additional fees were so limited, we were unable to conduct a meaningful analysis of the merit of such a practice.

We also considered additional fees that may be charged by micro training vendors. The fund's policy is to pay the first $500 per person of a micro training course, regardless of the type of class. Any amount charged by the trainer (micro vendor) in excess of $500 must be borne by the employer or employee. If the employer chooses not to pay the balance of the tuition, the employee may simply forego the training. Moreover, micro vendors are not required to obtain approval or notify the fund regarding additional tuition charges. Because the fund itself does not maintain documentation of additional micro vendor fee assessments, we could not determine whether vendors charged additional fees to fund-sponsored participants or whether this charge affected attendance rates at the training.

If additional fees are assessed, the macro grant project or micro vendor retains those fees. Therefore, the Employment and Training Fund does not benefit financially from charging additional fees. In addition, macro grant contractors are required to report additional fee income and its intended use to the fund. Most such fees are used to assist programs in becoming self-sustaining—another contractual condition of macro grants.

In order to fully assess the use and impact of permitting or encouraging trainers to charge additional fees to fund-sponsored participants, the fund would need to establish consistent attendance-reporting requirements for both macro grant projects and micro vendors. A valid comparison of attendance rates between trainers who do and do not charge additional fees could then be made and used to help determine appropriate funding levels for the various macro grants and micro training classes. Whenever grant amounts (macro or micro) are lowered, more resources are freed for distribution to other potential training participants.

Conclusion

The Employment and Training Fund is not adequately accountable to the Legislature and the public. It has not demonstrated its effectiveness in improving the long-term employability of Hawaii's people. In addition, administrative improvements are needed in the areas of monitoring, grant applications, award selection, and publicity. Furthermore, the fund's financing mechanism, an assessment on businesses that is channeled into a special fund, tends to produce inequities and reduce accountability. It has shielded the fund from legislative and public scrutiny and oversight. Moreover, the fund's special-fund status and assessment revenues have ensured its automatic support, and its revenues have consistently exceeded its expenditures. The Legislature may wish to consider financing program activities through the State's general fund. Finally, we also found that additional training charges to participants are feasible. However, their use so far has been limited and thus their impact on attendance and participant satisfaction has yet to be determined.

Recommendations

1. The Workforce Development Division should improve its administration of the Employment and Training Fund program by:

   a. Strengthening the program's contract administration by standardizing contractual language and requirements. These requirements should be enforced upon all grantees and vendors;

   b. Shortening the program's macro grant application process either by eliminating the county advisory committees' review or by formalizing, defining, and including specific timeframes related to these committees;

   c. Providing evidence that grant applications are treated in accordance with fund policies by documenting the reasons for acceptance and denial of each proposed grant;

   d. Improving the program's monitoring of funds disbursed by, at a minimum:

      - establishing and implementing an organized filing system;
      - requiring documentation of all contact made with grant applicants and recipients;
      - ensuring that staff in all branch offices are familiar with the various reports and submittals required of the different fund recipients;

   e. Developing and disseminating the state participant evaluation form to the program's vendors;

   f. Developing and implementing strategies for evaluating the program's overall success. Efforts should be made to assess whether the program is improving the long-term employability of Hawaii's people. Such efforts could include, but are not limited to, measuring program outcomes related to work unit and company performance, and collecting and comparing wage data from workers who have utilized the fund versus those who have not;

g. Increasing awareness of the fund and its programs by strengthening publicity;

h. Establishing consistent attendance-reporting requirements for both macro grant projects and micro vendors and comparing attendance rates for projects and vendors who charge additional fees to participants versus those who do not; and

i. Reporting as encumbrances only those obligations for which the fund has entered into bona fide contracts. If administrative encumbrances continue to be made, then any portions unexpended at the close of each fiscal year should be lapsed.

2. If employment and training fund activities continue to be financed outside the general fund, executive agencies—specifically the Department of Budget and Finance and the Department of Labor and Industrial Relations—should consistently treat the Employment and Training Fund in accordance with its statutory designation as a special fund.

3. The Legislature should consider budgeting the fund's program activities through the general fund instead of a special fund as a means to increase legislative oversight and heighten program accountability.

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Appendix A
Employment and Training Fund
Macro Grants Funded*

	Macro Grant Project Title	Applicant	Island(s) Served	Project Dates	Funding	Trainees to Date*
(1)	Kahua 'Oihana, Job Skills Center	Kahua 'Oihana	Hawaii	7/92 - 6/93	$40,000	
(2)	Medical Laboratory Technician Program to Hilo	Clinical Laboratory of Hawaii	Hawaii	8/92 - 6/93	$11,500	25
(3)	Kailua-Kona Learning Center	Human Services -- Family / Adult Services	Hawaii	9/92 - 8/93	$33,000	101
(4)	Building & Construction Technology Academy	Kailua High School / Department of Education (DOE)	Hawaii	1/93 - 8/93	$31,500	27
(5)	Automotive Technical Training	UH -- West Hawaii	Hawaii	3/93 - 2/94	$25,000	121
(6)	Big Island Safety Association OSH Training Project (BISA)	Kanoelehua Industrial Area Association	Hawaii	5/97 - 5/98	$88,912	
(7)	Dental Assistant Training Certificate Program	Roman Catholic Church	Hawaii	12/97 - 11/98	$30,220	10
(8)	Smart Business Computing I	Kona-Kohala Chamber of Commerce	Hawaii	1/98 - 12/98	$45,000	26
(9)	Smart Business Computing II	Kona-Kohala Chamber of Commerce	Hawaii	7/99 - 6/00	$211,151	118
(10)	Safety Training Center	Kanoelehua Industrial Area Association	Hawaii	2/99 - 2/00	$73,274	587
(11)	Certified Landscape Technician Program	Hawaii Island Landscape Association	Hawaii	5/99 - 4/00	$85,120	
(12)	Core Abilities for Business	West Hawaii Workforce 2000, Inc.	Hawaii	8/99 - 8/00	$88,900	
(13)	Big Island Cosmetologist Program	Roman Catholic Church	Hawaii	9/99 - 12/00	$100,000	9
(14)	Kauai Family Child Care	Governor's Office of Children & Youth	Kauai	9/92 - 1/93	$25,000	90
(15)	Kauai Community College, Office of Community Training -- Upgrade Training	Kauai Community College	Kauai	2/93 - 6/93	$30,000	20
(16)	Small Business Management Academy	Kauai Chamber of Commerce	Kauai	7/99 - 6/00	$50,000	194
(17)	Quality Through Employee Strategic Training (QUEST)	Kauai Electric, Citizen Energy Service	Kauai	3/00 - 4/01	$404,485	
(18)	Kauai Products Council Rural Products Training Program	Kauai Products Council	Kauai	5/00 - 5/01	$119,370	30 applicants[1]
(19)	Maui Family Child Care	Governor's Office of Children & Youth	Maui	9/92 - 1/93	$25,000	32
(20)	Disabled Students Training Initiative	DOE	Maui	10/92 - 5/93	$25,000	15

*As of November 2000.

	Macro Grant Project Title	Applicant	Island(s) Served	Project Dates	Funding	Trainees to Date*
(21)	Students With Disabilities Will Be the Workers of the Future	DOE	Maui	10/92 - 5/93	$25,000	15
(22)	Maui Visitor Industry's Workplace Basics Training Program	Maui Community College / VITEC	Maui	11/92 - 9/93	$50,000	955
(23)	Hazardous Materials and Occupancies Seminar (ICBO)	American Institute of Architecture	Maui	9/95	$4,000	26
(24)	Retail Industry in Excellence (RITE)	Maui Chamber of Commerce	Maui	2/97 - 8/98	$153,180	700
(25)	Restaurant Industry Service in Excellence Project (RISE)	Maui Chamber of Commerce	Maui	11/98 - 10/00	$320,922	972
(26)	Moloka'i Business Education & Skills Training Series (BEST)	Molokai General Hospital	Molokai	8/96 - 1/98	$31,500	183
(27)	Molokai Employer Consortium Training Initiative	Molokai General Hospital	Molokai	8/96 - 1/98	$58,060	212
(28)	Small Waterplane Area Twin Hull (SWATH) Shipbuilding Technology	Honolulu Shipyard	Oahu	1/92 - 11/93	$98,711	27
(29)	Audio Visual Connection	Tom Coffman Multimedia, Inc.	Oahu	8/92 - 9/92	$14,875	5
(30)	Healthcare Training	Office of Continuing Education / Training (OCET), Kapiolani Community College (KCC)	Oahu	8/92 - 6/93	$64,946	347
(31)	Home Health Aide / Long-Term Care Nurse Aide Training	KCC for Ola Loa Ka Na'auao	Oahu	9/92 - 12/92	$10,397	11
(32)	KMart Training Initiative	KMart	Oahu	9/92 - 12/92	$27,705	300
(33)	Ala Moana Cooperative Training	OCET, KCC	Oahu	9/92 - 2/93	$15,000	345
(34)	Landscape Industry Training Program Phases I and II	Landscape Industry Council	Oahu	9/92 - 8/93	$50,000	736 total
(35)	Landscape Industry Council of Hawaii	Landscape Industry Council	Oahu	3/94 - 2/96	$195,700	
(36)	Waikiki Lifelong Learning Center, Phase I	KCC	Oahu	9/92 - 10/94	$81,628	65
(37)	Waikiki Lifelong Learning Center, Phase II	KCC	Oahu	1/94 - 4/96	$106,000	857
(38)	Programmable Logic Controller	Honolulu Community College	Oahu	10/92 - 6/93	$47,972	124
(39)	Legal Training and Certification for Support Staff, Phase I	Hawaii Bar Association	Oahu	11/92 - 11/93	$7,500	
(40)	Legal Training and Certification for Support Staff, Phase II	Hawaii Bar Association	Oahu	9/93 - 12/94	$16,127	65 total
(41)	Legal Training and Certification for Support Staff, Phase III	Hawaii Bar Association	Oahu	3/95 - 2/96	$16,270	
(42)	Success Perspective Series	Human Connection	Oahu	2/93 - 1/94	$29,800	120
(43)	Training for Panelization Plant	Frame Tech Inc.	Oahu	9/93 - 3/94	$35,700	72

	Macro Grant Project Title	Applicant	Island(s) Served	Project Dates	Funding	Trainees to Date*
(44)	Hawaii Computer Training Center Skill Upgrading	Alu Like, Inc. / Hawaii Computer Training Center	Oahu	9/93 - 5/94	$25,000	152
(45)	Improve Hawaii's Tourism's Frontline Worker	OCET, KCC	Oahu	11/93	$2,000	424
(46)	Quality Rapid Product Development Workshop	Advanced Design Systems	Oahu	10/94 - 11/94	$1,250	18
(47)	Building Industry Association Resource Training Center	Building Industry Association	Oahu	11/96 - 10/98	$299,932	1,082
(48)	Fashion Industry Training and Technology Center	Hawaii Fashion Industry Association	Oahu	4/98 - 4/99	$100,000	23
(49)	HCC Flight Training Development Project	University of Hawaii	Oahu	12/98 - 11/99	$100,000	54
(50)	Orbital Welding Project	JATC for the Plumbing and Pipefitting Industry	Oahu	6/99 - 5/00	$23,620	6
(51)	Disabilities Services Instructional Program	Hawaii Centers for Independent Living	Oahu	7/00 - 9/00	$7,410	20
(52)	MIL-STD 2000 Certification	INTELECT, Inc.	Oahu / Hawaii	8/92 - 12/92	$10,000	36
(53)	Small Business Excellence Incubator (Kanahele), Phase I	George Kanehele & Associates	Oahu / Hawaii	6/95 - 12/95	$13,000	
(54)	Small Business Excellence Incubator (Kanahele), Phase II	George Kanehele & Associates	Oahu / Hawaii	7/95 - 12/95	$17,187	
(55)	Small Business Excellence Incubator (Wyatt), Phase I	The Wyatt Company	Oahu / Hawaii	6/93 - 6/95	$139,750	523 total
(56)	Small Business Excellence Incubator (Wyatt), Phase II	The Wyatt Company	Oahu / Hawaii	6/95 - 12/95	$136,545	
(57)	A Partnership Benefiting Hawaii's Organizations and Their Customers	The Wyatt Company	Oahu / Hawaii	9/93 - 12/95	$136,545	
(58)	Pacific Regional Institute for Service Excellence Center (PRISE)	The Wyatt Company	Oahu / Hawaii	10/94 - 10/96	$790,200	2,063
(59)	Marine Fish Maturation, Reproduction and Hatchery Training Project	The Oceanic Institute	Oahu, Hawaii, Molokai	6/98 - 5/99	$174,522	25
(60)	Aquaculture Technology: Finfish Hatchery and Growout Training Program	The Oceanic Institute	Oahu, Hawaii, Molokai, Kauai	9/99 - 8/00	$199,781	46
(61)	Special Needs 'Ohana	Commission on Employment	Statewide	3/92 - 7/94	$20,000	53
(62)	Training Opportunities Program	Employment Service	Statewide	7/92 - 6/93	$25,000	114
(63)	Special Needs Populations Access to Vocational Education	Commission on Employment	Statewide	10/92 - 5/93	$13,000	15
(64)	Tour Guide Project	Commission on Employment	Statewide	1/95 - 1/97	$151,500	1,103
(65)	Graphic Communication Training	Graphic Communication International Union	Statewide	6/93 - 5/94	$30,000	9

	Macro Grant Project Title	Applicant	Island(s) Served	Project Dates	Funding	Trainees to Date*
(66)	Ho'okipa Aloha Council's Airport Hospitality Project	Tourism Training Council	Statewide	11/93	$2,000	
(67)	Ho'okipa Aloha Council's Airport Hospitality Project, Phase II	Tourism Training Council	Statewide	1/95 - 7/96	$80,500	1,300 total
(68)	Airport Hospitality Project	Tourism Training Council	Statewide	1/95 - 9/96	$80,500	
(69)	Ho'okipa Aloha Council's Airport Hospitality Project, Phase II	Tourism Training Council	Statewide	10/95 - 8/97	$151,500	
(70)	Motorola Quality of Service Project	UH Community Colleges	Statewide	1/94 - 2/96	$350,000	43
(71)	Small Business Occupational Safety & Health Training	Department of Labor and Industrial Relations (DLIR), Hawaii Occupational Safety and Health	Statewide	4/95 - 9/97	$154,474	3,000
(72)	HIOSH Small Business Training Program	DLIR HIOSH	Statewide	5/95 - 3/97	$154,474	419
(73)	Multi-Media Training Initiative Project	Maui Economic Development Board	Statewide	3/96 - 2/98	$366,700	252
(74)	Establishment and Management of a Resource Training Center	Building Industry Association of Hawaii	Statewide	11/96 - 10/98	$299,932	658
(75)	No'Eau Ho'okipa Incumbent Worker Project	Workforce Development Council	Statewide	6/97 - 6/98	$25,000	120
(76)	Hawaii Ecotourism Association Project	Hawaii Ecotourism Association	Statewide	12/97 - 8/98	$24,710	40
(77)	Hawaii Food Industry Association Project: Management Program	Hawaii Food Industry Association	Statewide	1/98 - 3/99	$69,820	112
(78)	Tourism Impact Project	Hawaii Visitor Industry Security Association (HVISA)	Statewide	5/98 - 5/99	$248,084	766
(79)	Indoor Air Quality Management Program for Building Owners and Managers	American Lung Association of Hawaii	Statewide	10/98 - 10/99	$69,665	36
(80)	Early Care & Education Community Based Training Project	Hawaii Association for the Education of Young Children	Statewide	4/99 - 3/00	$92,606	22
(81)	Hawaii Forest Industry Training Program	Hawaii Forest Industry Association	Statewide	9/99 - 12/00	$82,200	104
(82)	Moving Business Forward, Courses 3 and 4	Directions, Inc.	Statewide	2/00 - 1/01	$100,000	400
(83)	Hawaii Human Services Training Institute	Child and Family Service	Statewide	7/00 - 6/01	$150,000	200 target[1]
(84)	Landscape Industry Training Project	Hawaii Island Landscape Association	Statewide	9/00 - 8/01	$99,800	1,460
					$8,021,631	

[1] Project recently started; no training had been held as of November 2000.

Source: Employment and Training Fund

Appendix B
Employment and Training Fund
Payments to Micro Training Vendors, FY1999-00

	Vendor		Total Amount Paid to Vendor During FY00	Percent of Total Micro Funding
(1)	Computer Training Corporation	$	290,790.06	10.10%
(2)	Computer Training Academy	$	62,477.00	2.17%
(3)	A Unique Array	$	50,650.00	1.76%
(4)	Technology Resource Institute	$	37,340.84	1.30%
(5)	Terabiz	$	36,270.44	1.26%
(6)	Atlantic Env. & Marine Services Inc.	$	9,390.00	0.33%
(7)	Parker School	$	8,022.00	0.28%
(8)	Human Resources Solutions	$	3,471.00	0.12%
(9)	Teamworks	$	2,615.00	0.09%
(10)	James E. Varner & Associates	$	1,000.00	0.03%
(11)	French Pastry School	$	650.00	0.02%
(12)	Dale Carnegie	$	500.00	0.02%
(13)	AMA/TKey	$	186.16	0.01%
TOTAL PAYMENTS, PRIVATE MICRO VENDORS		**$**	**503,362.50**	**17.48%**
(14)	UH Kapiolani Community College	$	638,639.56	22.17%
(15)	UH Maui Community College/Comptech	$	351,966.60	12.22%
(16)	UH Maui Community College/Vitec Open Enrollment	$	283,216.20	9.83%
(17)	UH Leeward Community College	$	280,410.45	9.74%
(18)	UH Honolulu Community College	$	250,086.00	8.68%
(19)	UH Hawaii Community College	$	151,708.18	5.27%
(20)	UH at Manoa	$	120,575.33	4.19%
(21)	UH Kauai Community College	$	120,273.33	4.18%
(22)	UH Windward Community College	$	117,233.91	4.07%
(23)	UH Maui Community College/Vitec Contract	$	31,512.00	1.09%
(24)	UH Employment Training Center	$	8,490.00	0.29%
(25)	RCUH	$	8,244.00	0.29%
(26)	DOE - Community School	$	7,251.00	0.25%
(27)	UH RCUH/TIN	$	7,018.00	0.24%
(28)	UH-West Oahu	$	192.00	0.01%
TOTAL PAYMENTS, PUBLIC MICRO VENDORS		**$**	**2,376,816.56**	**82.52%**
TOTAL PAYMENTS, ALL MICRO VENDORS		**$**	**2,880,179.06**	**100.00%**

Source: Employment and Training Fund

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Appendix C
Responses to Employer Survey
Conducted by the Office of the Auditor

Survey Questions and Answers		Percentage of Responses
Prior to receiving this survey, were you aware of the State's Employment and Training Fund (ETF)? If no, please skip to item #16 below.		
	No	58.1%
	Yes	41.9%
		100%
2. How did you hear about the ETF? (Please check all that apply.)		
	The Unemployment Insurance (UI) / ETF assessment (tax) form	60.6%
	From a business group or organization	17.3%
	Other	14.4%
	Word of mouth	13.5%
	ETF brochure	12.5%
	From an ETF vendor (trainer)	4.8%
3. How important do you think the ETF is to Hawaii's business community?		
	Somewhat important	28.8%
	Not at all important	25.0%
	Very important	19.2%
	Moderately important	18.3%
	No response	8.7%
		100%
4 Did you pay an ETF assessment fee within the past year?		
	Yes	62.5%
	No	23.1%
	No response	14.4%
		100%
5. How many people are employed by your company?		
	1 - 50 employees	83.9%
	51 - 160 employees	7.9%
	0 employees	6.7%
	No response / don't know	1.9%
		100%

Survey Questions and Answers	Percentage of Responses

6. Were any of your employees trained by, or did they participate in, ETF-sponsored training in 1999?

No	84.6%
Yes	15.4%
	100%

7. Have any of your employees been trained by, or participated in, ETF-sponsored training since 1992?

No	89.4%
Yes	9.6%
No response	1.0%
	100%

If your answers to questions 6 and 7 are both No, please skip to question #12. If you answered Yes to either 6 or 7, please continue:

8. How have you used the ETF? (Please check all that apply.)

Sent employees to an ETF-approved training vendor (Employer Referral Program)	88.9%
In conjunction with other businesses / industry groups (macro grant)	5.6%
Arranged specialized training through the ETF (customized training)	5.6%
Other	0.0%

9. How beneficial was the training to your business?

Very beneficial	66.7%
Moderately beneficial	22.2%
Somewhat beneficial	11.1%
Not at all beneficial	0.0%
	100%

10. As a result of the training they received through the ETF, have any of your employees (check all that apply):

Become more productive in their current positions?	100.0%
Received promotions within your company?	5.6%
Left your company because they found better jobs elsewhere?	0.0%

Survey Questions and Answers	Percentage of Responses
11. Which of the following needs of your company did the ETF help you to meet? (Check all that apply.)	
Upgrade training	61.1%
Business-specific training	55.6%
New occupational skills training	16.7%
Management skills training	16.7%
Support services training	16.7%
Other	11.1%
12. Do you think the ETF has helped to improve the long-term employability of Hawaii's people?	
Yes	46.2%
No	39.4%
No response	14.4%
	100%
13. Currently, ETF assessments on employers are scheduled to cease on December 31, 2002. Do you think the ETF should be allowed to terminate then, or should it be made into a permanent program of the State?	
Terminate the ETF	48.1%
Make ETF a permanent program	35.6%
No response / don't know	16.3%
	100%

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Responses of the Affected Agencies

Comments on Agency Responses

We transmitted drafts of this report to the Department of Labor and Industrial Relations and the Department of Budget and Finance on March 22, 2001. A copy of the transmittal letter to the Department of Labor and Industrial Relations is included as Attachment 1. A similar letter was sent to the Department of Budget and Finance inviting its comments on Recommendations No. 2 and No. 3 of the report only. The response from the labor department is included as Attachment 2; the response from the finance department is included as Attachment 3.

Response of the Department of Labor and Industrial Relations

The Department of Labor and Industrial Relations says it believes some of our findings and recommendations have merit. However, the department expresses concern about the accuracy of some of our findings and the appropriateness of some of the recommendations.

In its response, the department says it does require standard contractual language for its vendors. We concur that macro agreements generally include a scope of service section outlining requirements for reporting, fiscal reports, program progress reports, reporting penalties, and final reports. However, as discussed in our report, specific requirements vary among contracts.

The department also maintains that it does have an organized monitoring system. We disagree based on the evidence. *All* project documents should be stored centrally, not at multiple locations. In addition, uniformity among project binders should be developed to ensure that missing documents are indeed missing and not filed under an individual scheme.

Our report recommends developing and disseminating the state participant evaluation form to the program's vendors. To clarify, our recommendation relates to micro vendors only. Private micro vendors are required by their contracts to ensure that participants evaluate the course using state evaluation forms. In its response, the department says micro vendors have their own evaluations, which are available for review by the State. This does not alter our recommendation. While having evaluation forms at all is a step in the right direction, use of a standardized state form would allow the department to compare and analyze responses across numerous vendors.

Observing that the Hawaii employers we surveyed responded unanimously that their funded training improved workers' productivity, the department argues that more formal program evaluations of the type suggested in our report would require a sophisticated level of expertise and are rarely done, even in other states, because of the difficulty of isolating variables that may impact job retention and other measures. The department says that although in the future it may consider formal, scientific evaluations, it must weigh the high costs of such evaluations against their benefits. While we acknowledge the department's concerns, we continue to believe that formal evaluations are warranted in light of (1) what department officials call the fund's tenuous status as a program, and (2) the fund's controversial revenue source and historically ample balance.

The department also indicates that macro and micro programs should not have the same evaluation requirements; micro programs should have fewer requirements. The department views micro training courses as selected "off-the-shelf"by employers and believes that "[e]mployers who are disappointed with the product do not purchase them again." We view this as essentially a "buyer beware" approach and believe the fund has a duty to ensure that only quality programs are offered through state-sponsored vendors.

Responding to our recommendation to increase awareness of the fund and its programs by strengthening publicity, the department cites a number of its recent publicity efforts. These efforts are commendable; but as our report points out, a majority of employers are nevertheless unaware of the fund's existence.

In response to our draft recommendation that the program revise its literature to reflect that it does not serve government employees, the department clarifies its policies. Under the fund's macro grant proposal guidelines, government agencies are allowed to serve as contractors, subcontractors, or training providers when in partnership with private businesses; however, these and other funded projects are not allowed to provide training services to government workers. We amended the final report to incorporate this clarification.

Our report draft recommended comparing attendance rates for projects and vendors who charge additional fees to participants versus those who do not. The department responds that because of the difference between macro and micro projects, their attendance rates cannot be compared. We disagree. We did, however, amend our recommendation to clarify that this recommendation addresses the consistency of *attendance* reporting, not other reporting. The department also says it anticipates that implementing an additional fee upon micro users would cause a hardship on smaller businesses, reduce the number of businesses accessing the fund, and is "tantamount to a double tax on the employer."

Finally, the department disagrees that the Legislature was misled into believing a smaller balance existed in the fund than was actually the case. It defends its practice of reflecting all liabilities of the fund and identifying the macro contracts (for which bona fide contracts are in place) and amounts allotted for micro contracts. However, the department notes that because of new accounting guidelines set forth in the Governmental Accounting Standards Board (GASB) Statement No. 34 (which will be implemented after June 15, 2001 for all government agencies), our recommendation that unexpended encumbrances be lapsed will be implemented.

We made a few minor changes to the draft for purposes of clarity, which included deleting a relatively technical recommendation. We also made a few technical editorial changes.

Response of the Department of Budget and Finance

The Department of Budget and Finance commented first on our recommendation that if employment and training fund activities continue to be financed outside the general fund, executive agencies should consistently treat the Employment and Training Fund in accordance with its statutory designation as a special fund. The department says it waived central service assessments on the fund based on a December 22, 1993 memorandum from the Department of the Attorney General stating that the fund is a "trust fund." However, the department says it may pursue this issue with the Department of the Attorney General.

In addition, the finance department agrees with us that because a clear link between the source of the fund's revenues and its beneficiaries is lacking, the Employment and Training Fund program should more appropriately be general-funded and compete with other general fund programs for resources.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

March 22, 2001

COPY

The Honorable Leonard Agor, Director
Department of Labor and Industrial Relations
Keelikolani Building
830 Punchbowl Street
Honolulu, Hawaii 96813

Dear Mr. Agor:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Audit of the Employment and Training Fund.* We ask that you telephone us by Tuesday, April 27, 2001, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, April 2, 2001.

The Department of Budget and Finance, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures

BENJAMIN J. CAYETANO
GOVERNOR

LEONARD AGOR
Director

AUDREY HIDANO
Deputy Director

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
830 Punchbowl Street, Room 321
Honolulu, Hawaii 96813

April 2, 2001

RECEIVED
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OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion Higa, State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813

Dear Ms. Higa:

SUBJECT: *Audit of the Employment and Training Fund Program* (draft report) dated March 22, 2001

We have reviewed your draft report of the Employment and Training Fund Program (ETF). While believing that some of the findings and recommendations have merit, there are some concerns about the accuracy of some of the findings and the appropriateness of some of the recommendations. The following are DLIR's responses to your report:

Finding #1:

a) *The ETF has not demonstrated its effectiveness.*

Response: On the contrary, we feel experience show that ETF has been effective in upgrading the workforce skills of Hawaii's workers. ETF should be reviewed through a broader and historical perspective. Over the past several years, DLIR has continued to take active steps to expand ETF services to clients. One of the most important was to advocate legislation to exempt ETF from the State's procurement law Hawaii Revised Statutes, 103D and 103F, Act 230, SLH 1999. As a result of this action, ETF was able to issue a Request for Proposal (RFP) and expand the number of training providers on the approved vendor list from 3 to 23. Public vendors such as the University of Hawaii and the State Department of Education were already approved vendors.

The result has been the rapid expansion of the *Employer Referral Program* or "micro" program. The number of clients served increased from 3,035 in Program Year (PY) 1996–1997 to 10,555 in Program Year 1999–2000. We expect to serve between 13,400 to 14,000 clients this present program year (PY 2000–2001).

ETF underwent a period of adjustment during this time of rapid growth, which placed a tremendous amount of strain on program staff and resources. Many of the deficiencies cited in the audit can be, in part, attributed to the increased workload that had to be borne by staff in the State Office, Branch and local offices. The program is already taking steps to address the problem. For example, ETF will be establishing priorities for its training services and is currently balancing workload and staff resources.

b) *Some [macro grant] awards are questionable.*

Response: DLIR strongly disagrees with the statement, "Some awards are questionable" (Page 18 of the Audit). We believe the State Auditor fails to understand fully the program philosophy used in funding these macro grants. "These grants are used to fund innovative or cutting edge training that benefits a group of employers rather than single employers" (page 5 of Auditor's report). The auditors cite high costs as the reasons for their conclusion. For any new, innovative, experimental project it involves risk. Some projects may not be able to meet enrollment objectives, resulting in high costs. Nevertheless, industry leaders themselves who invest time, effort, cash and in-kind contributions, as well as their expertise in meeting training needs that do not currently exist in the State are the designers and creators of these projects. These projects are designed to continue after the initial "seed money" is exhausted. ETF grant monies are intended to bridge workforce and economic development initiatives.

ETF has funded several projects that have received national recognition. For example, Hawaii is seen as a national leader in incorporating national and/or state industry skill standards into training curricula, which Hawaii has done in its retail, tour industry, and restaurant industries. Other types of training are costly because they involve training on highly sophisticated "cutting edge" equipment.

c) *The fund's monitoring oversight is inadequate.*

Response: On both the micro and macro levels, there are procedures in place that are being implemented to conduct on-going desk reviews of all vendors and grantees. In addition for macro grants, according to the terms and conditions of each contract, every project is required to submit to ETF a monthly financial management report and a bi-monthly program progress report that address the specifications set forth in the contract and describe project start-up activities, curriculum development, recruitment of trainees, project promotions and marketing, and potential problems that may arise. Throughout the contract period, the ETF staff provides ongoing technical expertise through written and oral communications. The majority of these projects are monitored on-site at least 6 - 8 months from the start date of the contract. This time frame was selected because new projects take a few months to start up. If on-site monitoring were conducted earlier, the scope of the review would be limited to non-substantive start-up activities.

The on-site monitoring consists of a review of all project documentation, including project advisory committee reports/minutes, curriculum, financial records and justifications, instructor resumes, trainee attendance records, pre-post evaluations for each course attended, and promotional materials. ETF provides the grantee with a written report addressing both financial and program findings as well as recommendations to be in accord with its contractual obligations. In response to any "open" findings, the grantee provides a written response for correction to ETF and if satisfactory, will close its findings.

d) *[ETF's] limited publicity hampers access to program funds*

Also responds to *Recommendation 1g. Increasing awareness of the fund and its programs by strengthening publicity.*

Response: We pointed out above the rapid increase in the number of clients served by ETF in the past four years, from 1,119 in program year 1995–96 to a projected 13,400 or more participants this present program year. One of the reasons has been the promotion of the program by ETF. The State Auditor noted that they did not find much evidence of promotional activities in its review of the State Office records.

However, much of the responsibility for promoting the micro program falls on the Workforce Development Division (WDD) branch offices. For example, the Oahu WDD Branch co-sponsored or participated in business and training expositions such as *Workforce 2000 Exposition*; *Moving Business Forward*, *Business Opportunities for Self Starters* (*BOSS*), and *Voc Fest*, in which ETF was promoted. It purchased advertisements in the daily newspapers to publicize these events. The Oahu Branch together with the State ETF Office purchased a full-page advertisement in the Pacific Business News' *Book of Lists*. A similar full-page advertisement will be displayed in the April 2001 special Education and Training section of the business magazine, *Island Business*. The neighbor island WDD branches have conducted similar efforts to promote the program within their own communities. Since it is primarily responsible for the macro or *State and County Grant Program*, the State ETF Administrative Office targets much of its promotional efforts, such as its newsletter, towards business and professional groups and associations. The DLIR Director, the WDD Administrator, the WDD branch managers, and the ETF program coordinator are constantly giving presentations that promote the program before business, labor, and government groups.

Both public and private training providers actively promote ETF throughout the state. One of the reasons for expanding the list of approved training providers was to tap their ability and resources to promote ETF. The University of Hawaii

Community Colleges' catalogues for the continuing education programs publicizes the availability of ETF funds for upgrade training.

Finding #2:

The funds financing structure has insulated it from Legislative scrutiny and oversight. Its status as a Special Fund and its source of assessment revenues has insured automatic support for the fund. Its revenues have consistently exceeded its expenditures. The Legislature may wish to consider financing program activities through the State's General Fund:

Response: DLIR believes the present funding mechanism is appropriate. Employers are assessed to generate revenues for the fund because employers, not the general public, benefit directly from the fund's training services. We are puzzled by the claim that ETF lacks legislative oversight since ETF has been under close scrutiny by the Legislature since its inception. ETF's program and budget undergoes regular scrutiny by the Legislature each year.

Over the years, the DLIR and the State Legislature have recognized this problem and made several efforts to address it. In 1996, the counties' budget cap increased significantly, making the program truly statewide in scope. In 1998, the Legislature through Act 194, SLH 1997 enacted a temporary moratorium on ETF collection between July 1, 1997 and December 31, 1998. As a result of these actions, ETF was able to draw down on its 9 million dollar reserves and expand services to clients throughout the state and reverse the situation: expenditures now significantly outpace revenues as the table below indicates.

Fiscal Year	Revenues	Expenditures
1997–1998	$1,065,220.00	$2,160,424.00
1998–1999	492,915.00	2,610,819.00
1999–2000	4,538,695.00	4,751,159.00
2000–2001*	3,600,000.00	6,800,000.00
	$9,696,830.00	$16,322,402.00

*Projected: based on expenditures of 3.9 million dollars up to January 31, 2001

In the past four years, expenditures have outpaced revenues by $6,625,572. If this trend of dramatically increasing expenditures continues into Fiscal Year 2001–2002, ETF will no longer have reserve funds by the end of 2002.

Finding #3: Additional training charges to participants are feasible, and in some instances are already being utilized. Their impact is not readily determined, however.

Currently, employers already are providing cash or in-kind contributions when using or assisted by ETF funds. Employers who send their employees during work hours for training incur the cost of wages for time away from the workplace. Additionally, employees who receive training on their own time provide in-kind contributions; there is a value to their personal time in which the employer benefits. Other employers/employees whose cost of training exceeds $500 pays in cash the balance of tuition cost. If businesses are required to pay additional charges for training, DLIR anticipates that it would be a hardship for small businesses and would greatly deter these businesses from accessing ETF for assistance.

Recommendation 1a. Strengthening the program's contract administration by standardizing contractual language and requirements. These requirements should be enforced upon all grantees and vendors:

The DLIR **does** require standard contractual language for both the macro and micro program. All micro vendors must adhere to the same contractual language, except for the specific course offerings that are part of the contract. All macro Contractors must incorporate in their Agreements a **standardized** "Scope of Service" section that sets forth the State's requirements for **all** Contractors in terms of reporting, fiscal reports, program progress reports, reporting penalties, and final report.

Recommendation 1b. Shortening the program's macro grant application process either by eliminating the county advisory committees' review or by formalizing, defining, and including specific timeframes related to these committees; **and**

Recommendation 1c. Providing evidence that grant application are treated in accordance with fund policies by documenting the reasons for acceptance and denial of each proposed grant:

The role of the advisory county is to address the local business needs of its community. They are representatives of the industry and private sector. The DLIR and the state Legislature wanted to include these bodies to receive input on the local needs of the area. These committees are voluntary and have served on former job councils representing federal funded programs. Their role is limited to an advisory capacity only; it is the DLIR, Workforce Development Division administration that addresses compliance to applicable laws, rules, program policies, and guidelines.

The Request for Proposals for the macro grants is published on a quarterly basis. The turnaround time for macro grant approval process is approximately two and a half months upon receipt of the proposed application. For those applications that receive approval, a letter is sent within two weeks awarding the applicant a grant. For those applications that have merit, but did not meet all of the criteria set forth in chapter 383-128, Hawaii Revised Statutes, § 12-6-22, Hawaii Administrative Rules, or the DLIR ETF policies and procedures are informed of the deficiencies and encouraged to strengthen these areas and resubmit their application. Proposals that are rejected are kept on file for at least one year.

Recommendation 1d. Improving the program monitoring of funds disbursed by, at a minimum:

Contrary to what is stated in the Auditor's report, ETF does have an organized monitoring system. As stated in the response to Finding #1, b, DLIR conducts periodic desk reviews, on-site monitoring, and documents its written communications in organized files/folders. These reports and communications are available at the administrative offices of ETF.

Recommendation 1e. Developing and disseminating the state participant evaluation form to the program's vendors.

On the macro level, these "innovative and cutting edge" projects do not have a State standardized evaluation form because each project designs their own evaluation instrument in accordance with their projects' goals and objectives. The State reviews and comments on the applicability of the instrument either through a desk review or on-site monitoring.

On the micro level, vendors have in place evaluations on course content/delivery as well on the instructor. These evaluations are available for review upon request by the State; last fiscal year ETF has served over 10,000 individuals.

Recommendation 1f. Developing and implementing strategies for evaluating the program's overall success . . .

The audit points out that, in both ETF's and the auditor's employer surveys, participants almost unanimously responded that ETF-funded training improved workers' productivity (a 100 percent rating according to the State Auditor's own survey) and that these employers were satisfied with ETF services. However, the State Auditor recommends that DLIR conduct more formal program evaluations that measure net job retention, economic impact, net earning gains, and net savings for unemployment insurance. Such evaluations require a sophisticated level of expertise. As the auditors themselves pointed out in its exit meeting, other states with similar programs have not conducted such evaluations. In fact, they are rarely done anywhere because of their expense and the difficulty of developing evaluation instruments that isolate one variable—such as ETF-funded training—among many others that may impact job retention and the other variables cited above. These other variables include factors such as employee morale, state of the economy, level of employee compensation, and historical industry and company turnover rates. DLIR may in the future consider such an evaluation, but it has to weigh such study's anticipated high costs versus benefits, since the validity of such formal, "scientific" evaluation, given its extreme complexity, may be problematic.

DLIR does not agree that macro and micro programs should have the same evaluation requirements. The macro projects as stated are customized and tailored to industry needs and are not "off-the-shelf" training. It is appropriate that the micro program have fewer requirements. Under the micro program, employers select courses "off-the-shelf." The value of these products (training courses), whether from the community colleges or private vendors, is determined by the marketplace. Employers who are disappointed with the product do not purchase them again.

We also want to note that ETF administrators consciously applied the philosophy towards program administration that is incorporated in the Workforce Investment Act (WIA), the new federal job training legislation. WIA promotes customer choice. Businesses themselves develop their training plans and select what they believe are appropriate training providers. They make their decisions based on factors such as cost, location, quality, and availability of training programs. WIA features individual training accounts, through which clients can select training providers of their choice. Like any customer of goods and services, a client takes much of the responsibility for selecting an appropriate training provider. A program's major responsibility is to provide the consumer with a wide selection of training offerings and the types of information that enables that consumer to make informed choices. Under this philosophy, the assumption is that consumers are in the best position to select a product and to decide on its quality. Therefore, satisfied customers are the most important outcome for any training program. There is less emphasis on "top down" determination of program quality through methods such as formal program evaluations and more on "consumer report cards."

The statement that program evaluations are not substantive is vague. Other than the fact that requirements for submission of participant evaluations are inconsistent among the various projects, the Auditor did not point out how the make the program monitoring for the macro projects and micro vendors more "substantive." The Agreements for both macro and micro programs set forth clear reporting and evaluations requirements.

Recommendation 1g. Increasing awareness of the fund and its programs by strengthening publicity.

Refer to response to Finding #1, d.

Recommendation 1h. Revising the program's literature to reflect that it does not serve government workers.

All references to government agencies in ETF's literature relate to macro projects. Under proposal guidelines, government agencies are allowed to serve as contractors, subcontractors, or training providers when in partnership with private businesses. However, these and any ETF-funded project are not allowed to provide training services to government workers. We believe that this is made clear in the ETF literature, but DLIR will state the policy in more explicit terms in future publications.

Recommendation 1i. Establishing consistent reporting requirements for both macro grant projects and micro vendors and comparing attendance rates for projects and vendors who charge additional fees to participants versus those who do not.

To standardize the reporting requirements for both macro and micro projects would be difficult. As previously stated, these projects differ in scope and are not comparable. The purpose of developing macro projects is to create curricula that does not exist in the State, so it must be developed to meet the needs of industry. The micro program is "off-the-shelf" training and has a greater population of trainees. The attendance rates cannot be compared. As stated earlier, implementing an additional fee upon micro users is tantamount to a double tax on the employer. We anticipate it would cause hardship on smaller businesses and reduce the number of businesses accessing assistance from ETF.

Recommendation 1j. Reporting as encumbrances only those obligations for which the fund has entered into bona fide contracts. If administrative encumbrances continue to be made, then any portions unexpended at the close of each fiscal year should be lapsed.

The DLIR does not believe that ".... the Legislature was misled into believing that a smaller balance existed in the fund...." (page 26, Auditor's report). The annual fund status reports submitted to the Legislature for ETF pursuant to §37–47, Hawaii Revised Statutes as well as the Annual Report to the Legislature on ETF have always reflected all liabilities and identified the macro contracts (for which bona fide contracts as noted by the Auditor are in place) as well as amounts allotted for micro contracts. With these reports and testimony provided by DLIR, the legislators initiated actions to impose a moratorium on ETF assessments. If they were misled, they would obviously not have taken such actions.

We note that because of new accounting guidelines set forth in the Governmental Accounting Standards Board (GASB) No. 34 (which will be implemented after June 15, 2001 for all government agencies), the recommendation for unexpended funds to be lapsed will be implemented.

Recommendation 3. The Legislature should consider budgeting the fund's program activities through the general fund instead of a special fund as a means to increase legislative oversight and heighten program accountability.

ETF is an extension of the Aloha State Specialized Employment and Training (ASSET) project that was funded by general revenues. The purpose of the ASSET project was to attract new industry to Hawaii and provide for qualified skilled workers that would address the training needs of Hawaii's workforce. The ASSET program was short-lived and was folded into the creation of ETF to address incumbent workers and business training needs. The creation of ETF and its funding mechanism via special fund was intentional. ETF was meant to address the business communities' needs and not that of the general public.

Thank you for the opportunity to comment. We hope that you will consider our response in your final report.

If you have any questions, please contact Ms. Elaine Young, Workforce Development Division Administrator, at 586-8812.

Sincerely,

Leonard Agor
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PUBLIC UTILITIES COMMISSION

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FINANCIAL ADMINISTRATION DIVISION

April 2, 2001

Ms. Marion Higa
State Auditor
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OFC. OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa:

Thank you for the opportunity to respond to your draft report, Audit of the Employment and Training Fund (ETF); specifically, comments are provided on your Recommendation Nos. 2 and 3.

Recommendation No. 2: If ETF activities continue to be financed outside the general fund, B&F and DLIR should consistently treat ETF in accordance with its statutory designation as a special fund. We note that the Department of the Attorney General (AG) clarified (in a memorandum dated December 22, 1993) that ETF, as established by Section 383-128, HRS, is a "trust fund" (as defined by Section 37-62, HRS). With this legal clarification, we have waived the central service assessment on the ETF. We may, however, pursue this issue with the AG.

Recommendation No. 3: ETF program activities should be general funded. Because of a lack of a clear link between the source of the fund's revenues and the fund's beneficiaries, we agree with your recommendation; i.e., the ETF program should more appropriately be general funded and compete with other general fund programs for resources.

Thank you again for the opportunity to comment on the ETF audit.

Aloha,

Neal Miyahira

NEAL MIYAHIRA
Director of Finance

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