

ALASKA LEGISLATURE

2398

HOUSE and SENATE FINANCE COMMITTEE FILES, 2001 - 2002

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The Board of Dispensing Opticians should evaluate the reasonableness of the apprenticeship period required for individuals seeking to be licensed.

To become licensed as an optician in the State of Alaska, an individual must pass an examination that is offered at least once a year by the board. To be eligible to sit for this examination, an individual must have graduated from high school and accumulated at least 6,000 hours of training as a registered optician apprentice. This apprenticeship requirement is reduced to 2,000 hours for individuals that have graduated from an associate degree program in opticianry. Most of the individuals licensed by examination in Alaska do so under the 6,000 hour apprenticeship requirement.

Currently, 22 states regulate opticians through the use of a licensing board. The remaining states either utilize a registration system or do not regulate opticians. All of these states provide for a process by which an individual can become licensed through an apprenticeship process.¹ Alaska's apprenticeship requirements are typical of those followed by other states that utilize a board to regulate opticians; however, other states have apprenticeship requirements as low as 2,000 or 3,000 hours.

Over the last three fiscal years, the board has licensed eight people under the experience and examination requirements.² By comparison, the board has registered 94 new apprentices over the same period. While there may be commercial reasons for this large difference between the number of individuals seeking licensure as opticians compared to apprentices, the disparity also suggests that the 6,000 hour requirement may unduly prohibit people from getting licensed as an optician.

We suggest the board reconsider the necessity of the 6,000 hour requirement. The board should survey registered apprentices and assess the extent that apprentices aspire to become licensed opticians. If a significant number of apprentices would be interested in becoming opticians if the 6,000 hour requirement was lowered, the board should then reconsider the necessity of requiring what is in essence a three year apprenticeship.

Given that professional competence is promoted by requiring individuals pass national examinations – the question the board should address is: How much more public protection is provided by requiring individuals to apprentice for three years compared to two years, or even one year? In the context of the two-tiered examination process, the additional requirement that an individual serve a three year apprenticeship may be unreasonably restrictive, and not in the overall interests of the public.

¹ To be licensed through an apprenticeship process, the applicant typically is required to have graduated from high school or attain a graduate equivalent diploma.

² While ten opticians have been licensed over the past three fiscal years, two received their license under the credentials procedure rather than through the experience and examination process.

Recommendation No. 2

The board should reconsider whether to continue requiring applicants pass a state administered practical examination. If it elects to continue requiring a practical examination, the board should take steps to improve the objectivity and consistency with which the examination is scored.

The board requires applicants for licensure to pass a national written examination and a practical examination to demonstrate sufficient ability to dispense optical products. The practical examination is over two hours long and is related to the "mechanics" of the profession – proper use of various devices to measure individuals for fit and comfort of eyewear and contact lenses.

This is a prior audit recommendation. In our 1995 sunset review³, we recommended the board improve the objectivity and consistency of the state's practical opticianry examination. We noted at that time that the results of the examination had been challenged five times, and in two instances test scores were changed – once resulting in an applicant moving from failing to a passing score.

The board has administered over 20 examinations in the past three fiscal years. We selected 11 of these practical examinations and reviewed the scores calculated by the board. We found five errors in the calculation of the scores. Since FY 98, four individuals who initially received failing scores in their practical examination protested the procedures and scoring. Upon review, two were licensed by the board.

At this point, we suggest the board give serious consideration to discontinuing the practical examination and require applicants only to pass the nationally recognized examinations offered by the American Board of Opticianry (the National Opticianry Competency Examination) and the National Contact Lens Examiners (the Contact Lens Registry Examination) for licensure within the State. Alternatively, the board could possibly explore efforts being made by other state licensing agencies to develop a regionally-recognized, if not nationally endorsed, practical examination.

We continue to be concerned about the apparent subjectivity or error-prone nature of the current examination. This continuing problem, coupled with what may be unduly high apprenticeship hour requirements discussed in Recommendation No. 1, may be artificially limiting the number of individuals seeking licensure as opticians and contributing to the disparity between the number of registered apprentices and number of applicants.

³ Department of Commerce and Economic Development, Board of Dispensing Opticians, September 29, 1995 (Audit Control Number 08-1435-96)

AUDITOR COMMENTS

Under AS 44.66.050(d)(4) part of a sunset review is to provide "*an assessment of alternative methods of achieving the purposes of the program.*" In this context, we considered the merits of regulating opticians through the use of a titlement law. Such a law would certify qualified practitioners of a given profession utilizing a state registration process without administrative oversight from a licensing board.

Registering opticians under a titlement statute is a reasonable public policy alternative

Currently, 22 states license opticians through the use of licensing board. The other jurisdictions regulate opticians through the use of a registration program under a titlement law, or have no minimum established requirements related to the practice of opticianry.

This variety in how opticians are regulated involves a concept referred to as "scope of practice." What licensed professions are allowed to do, and conversely, prohibited from doing, by state law and regulation, constitutes what is termed a profession's scope of practice.

The scope of practice for opticians, to a large extent if not completely, falls within the purview and scope of practice of optometrists and ophthalmologists.⁴ Given such circumstances, jurisdictions in which opticians are registered under a titlement law, or not licensed at all, the public still receive opticianry services typically from optometrists or opticians who are often affiliated with, or supervised by, optometrists.

Given the nature of the profession's scope of practice, coupled with the limited potential for real adverse harm to the public health and welfare, a registration program for opticians has merit. Such a program administered by the Division of Occupational Licensing could provide for the registration of individuals holding themselves as opticians. If an individual could demonstrate they had passed recognized national examinations and had worked the required apprenticeship, they could be registered as an optician. Such a system could provide adequate, if not optimum, protection to the public.

Due to current concerns, maintaining a board is the preferable policy alternative at this time

Registration of opticians under a titlement law, rather than licensure through the use of an oversight board of professionals would essentially set in place the status quo. As reflected in the Findings and Recommendations section, there are concerns regarding the reasonableness of the hours required of apprentice opticians prior to being eligible for licensure as opticians.

⁴ This situation is explicitly recognized in state law at AS 08.71.230(1) which states no part of the optician title statute is to be construed as limiting or restricting "*a licensed physician or optometrist from the practice enumerated in [the opticianry statutes], and each licensed physician and optometrist has all the rights privileges which may accrue under [the statutes] to dispensing opticians....*"

As discussed in Recommendation No. 1, the disparity between the number of individuals licensed as opticians compared to the number registered as apprentices in part suggests that perhaps the 6,000 hour work requirement may be unreasonably onerous. The Division of Occupational Licensing would not likely be inclined to evaluate and possibly adjust the apprenticeship time requirements discussed in Recommendation No. 1.

The other concern, as discussed in Recommendation No. 2, is that consistency and applicability of the state practical examination would likely be made irrelevant since registration would involve licensure based only on an applicant passing the nationally recognized examinations. However, we believe the board should continue to work on this issue, possibly investigating the potential for joining other states who are attempting to establish a practical examination, acceptable to a group of participating states, if not on a national level.

Essentially, the board is acting in the interests of the public at large. As required by AS 08.91.065(c), licensing fees charged to opticians are established at a level intended to equal all regulatory costs. Accordingly, the public is benefiting from the board at no expense to the state's general fund.

The public would be better served by having a group of informed, engaged, and practicing professionals involved in resolving the current concerns involved in the licensing of dispensing opticians. Accordingly, our recommendation to extend the board's termination date, as set out in the Report Conclusions section, reflects our judgment of the regulatory alternatives involved. Given the current issues related to the licensure of opticians in Alaska, the board should be continued in order to best address these concerns. During the subsequent sunset review, we believe progress in these areas should be assessed, and licensing alternatives to the current board oversight structure should be given further consideration.

ANALYSIS OF PUBLIC NEED

The following analyses of the board activities relate to the public need factors defined in the "sunset" law, AS 44.66.050. These analyses are not intended to be comprehensive, but address those areas we were able to cover within the scope of our review.

Determine the extent to which the board, commission, or agency has operated in the public interest.

To the extent there were applicants for licensure, the board has licensed 10 opticians over the past three fiscal years. Through licensure, the individuals are designated to offer eyeglass fitting and contact lens dispensing services to the public that is in accordance with established professional standards.

Determine the extent to which the operations of the board has been impeded or enhanced by existing statutes, procedures, and practices, which it has adopted, and any other matter, including budgetary, resource, and personnel matters.

The limited number of licensed opticians, compared to high number of registered apprentices, suggests that the requirement that apprentices work 6,000 hours prior to being qualified for licensure may be excessive. The number of individuals seeking licensure as opticians may be artificially restrained by this apprenticeship requirement, requiring an individual work three years as a registered apprentice before being eligible to sit for the necessary opticianry examinations.

The board has not resolved the prior sunset audit recommendation related to the state practical examination. The objectivity and consistency of the state practical examination did not improve over the current sunset review period, resulting in successful challenges by applicants who originally were determined to have failed the test.

Determine the extent to which the board has recommended statutory changes that are generally of benefit to the public interest.

Since the past sunset audit, the board has reviewed proposed statutes and regulations at each meeting. These changes were in conjunction with the prior sunset audit that made recommendations concerning AS 08.71.150 (which dealt with reciprocity, a process the board was no longer utilizing for licensure) and AS 08.71.145 (which dealt with licensure by credentials). The 1996 legislature passed a measure repealing AS 08.71.150, while the credentials licensing process remains in statute.

Determine the extent to which the board, commission or agency has encouraged interested persons to report to it concerning the effect of its regulations and decisions on the effectiveness of services, economy of service, and availability of services that it has provided.

The location, date, and time of upcoming meetings and exams were advertised in Alaskan newspapers, as well as on the Board of Dispensing Opticians web page, with adequate time for interested individuals to attend or to submit written comment for review. The board's meeting agenda sets aside suitable time for the board to receive public comment. Minutes from the meetings of the board reflect public participation at various meetings.

Determine the extent to which the board has encouraged public participation in the making of its regulations and decisions.

Public notice was given for all proposed regulations in major Alaskan newspapers. The board meeting minutes document that time was allotted for the scheduled public comment period. All proposed regulation changes are submitted to the public participation process.

Determine the efficiency with which public inquiries or complaints regarding the activities of the board, commission, or agency filed with it, with the department to which a board or commission is administratively assigned, or with the Office of the Ombudsman have been processed and resolved.

For the period between July 1, 1998 and June 30, 2001 (FY 99 – FY 01), the Division of Occupational Licensing opened three cases related to dispensing opticians. One was generated by a public complaint regarding the authority of an individual to write prescriptions for eyeglasses. The complaint, received in May 2001, was still in investigative status during August 2001, although it did appear the division had already determined that the individual was acting beyond the scope of their authority.

The two other cases were generated by shop visits conducted by occupational licensing investigators. In one instance, an optician was found to be practicing without a license. The individual had previously been licensed by the state, but had not submitted documentation that he had met the continuing education requirements. This resulted in his unlicensed status. He was fined \$300. The other case involved an individual, working for an optometrist, who was working as an optician without appropriate supervision.

We have reviewed the nature and extent of complaints filed involving dispensing opticians. In our view, the Division of Occupational Licensing, in conjunction with the board, took appropriate investigative actions, prioritized complaints in a reasonable manner, and proceeded in a manner consistent with the potential threat the complaints posed to the public welfare.

Determine the extent to which the board regulates entry into an occupation or profession and whether it has presented qualified applicants to serve the public.

| New Licenses Issued | FY 99 | FY 00 | FY 01 | Total | Current Licenses |
|---------------------|-------|-------|-------|-------|------------------|
| Dispensing Optician | 5 | 2 | 3 | 10 | 105 |
| Apprentice | 24 | 39 | 31 | 94 | 158 |

During the past three years, the Board of Dispensing Opticians has issued two licenses by credentials. Licensure by credentials requires "licensing requirements substantially equivalent to or higher than those of this state." The state of Alaska requirements are among the strictest in the nation, requiring both a state practical exam and 6,000 hours of apprenticeship hours or equivalent experience.

Determine the extent to which state personnel practices, including affirmative action requirements, have been complied with by the board to its own activities and the area of activity or interest.

We did not find any evidence that the board was not complying with the state personnel practices, including affirmative action in qualifying applicants. In no instances has the board denied an applicant a license based on personal attributes.

Determine the extent to which statutory, regulatory, budgeting or other changes are necessary to enable the board to better serve the interest of the public and to comply with the factors enumerated in this subsection.

The board should reevaluate the requirement that individuals work at least 6,000 hours as a registered optician's apprentice before being eligible to take the examination for licensure. See discussion in Recommendation No. 1.

The board should either eliminate the state practical examination or develop a more objective test that can be consistently administered to prospective applicants for licensure. See discussion in Recommendation No. 2.

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LEGISLATIVE AUDIT

ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE
Division of Legislative Audit
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Re: Audit Control #08-20010-02
Board of Dispensing Opticians

In regards to the December 6, 2001 "CONFIDENTIAL" preliminary audit report, I would like to respond to the Audit Committee's findings and recommendations.

Recommendation No 1

The Board has evaluated and reconsidered the 6,000 hour training requirement for apprentices. The minutes of the board's November 21, 2001 teleconference meeting reflects this in it's motion that it be "Resolved that the opticianry statutes be amended so that in order to qualify for a spectacles opticianry license, an individual must have either an associates degree from a C.O.A. - accredited school and pass the national and state exams, or have 3,000 hours of experience, pass the Career Progression Program, and pass the national and state exams, and furthermore, in order to register and work as an apprentice, a person must be enrolled in the Career progression Program."

This shou'd accomplish several objectives regarding apprentice requirements. The 6,000 hour training requirement has been reduced by half. The adoption of the National Academy of Opticianry's Career Progression Program home study course will give all apprentices an equal opportunity to develop and share a common knowledge base, that will make them much more qualified and successful test candidates.

Recommendation No 2

The Board is committed to the long overdue overhaul of the State Licensing Examination.

Solution No 1

Dr. R. Freguson's practical test. This test is currently used by the state of North Carolina. It is to my knowledge the only practical exam currently available and qualified to meet our state licensing exam requirements. The Board want's very much to procure this test and use it at the soonest possible date. The challenge is to convince the state's procurement office that this Board is short of both time and money . We see merit in

allowing a one time procurement exemption, so that the Board has a more suitable and objective test for the April 19, 2002 State Licensing Exam. The test and related materials are readily available and could be sent to the State at least a month before the exam, the cost is nominal at \$100.00 per applicant. See attachment 1.

Solution No 2

Start the "Request for Proposals" process. The time and cost to complete this process is not known at this time. It is known that it would not be done in time for the April 2002 exam, it is also known it will be expensive. Before proceeding with this the Board will make an enquiry, as to just how much the cost would be. While this may be the best long term solution and will in all likelihood be the course chosen by the Board, it does not address the dilemma of the current test being susceptible to challenge and replacing it in the limited time available.

Solution #3

Have the Board rewrite/revise the current exam. While not impossible, it will be difficult to meet the April 29, 2002 test date and have all Board members agree on the new test content. This would not in my opinion offer a long term solution of having a badly needed completely objective. test.

Conclusion

As stated the Board has already addressed the 6000 hour requirement for apprentices. The Board has resolved to amend the statutes to 3000 hour training for apprentices with a more well defined education and training requirement. This Board believes that the national written examination alone does not demonstrate the applicants ability to perform common tasks needed to insure the proper safe and accurate dispensing of ophthalmic prescription devices. A suitable practical test can be procured that will eliminate the concerns about objectivity. The recommendation to extend the termination date for the Board of Dispensing Opticians to June 30, 2005 is acceptable, however given the Boards positive action in resolving concerns regarding apprentice training hours, the Board would like to request the full 4 year standard extension time to June 30 2006 in order to address and resolve the concerns regarding the State practical exam.

TO: State of Alaska, Division of Occupational Licensing
Attn: Nan Lathrop, Licensing Examiner, Board of Dispensing Opticians

FROM: Roy R. Ferguson, Ph.D. (DBA The Learning Curve)
120 East Bruce Street
Sevierville, Tennessee 37862

DATE: November 9, 2001

SUBJECT: Practical Examination Development and Administration Services

This bid pertains to examination development and administrative services to the State of Alaska, Division of Occupational Licensing, Board of Dispensing Opticians. The term of the contract is from Spring 2002 to Spring 2007 with a three-year renewal period at the option of the Division. Barring any unforeseen circumstances, the first examination may be scheduled Spring 2002. The Learning Curve must receive all test applications at least one month prior to test administration.

DESCRIPTION OF PRACTICAL EXAMINATION

The proposed Opticianry Practical Examination (*supplied by The Learning Curve*) is a forty (40) question, multiple-choice text which objectively measures the applicants ability to perform some of the most common tasks relating to ophthalmic dispensing.

Three different lens types are contained in four identical metal frame styles. All test sets are fabricated and verified as to accuracy by Colts Laboratories, 21915 U.S. Highway 19 North, Clearwater, Florida 33765, which is an A2LA accredited laboratory, then validated using second-year opticianry students. Approximately fourteen questions concern progressive lenses: eleven with standard bifocals, four with single vision, non-prism lenses, and five with single vision lenses containing prism. All remaining questions cover decentration, add power, bi-centric grinding, and knowledge of proper frame alignment and ability to use conventional frame adjustment tools. The test is designed to be completed in a fifty minute period.

The equipment (*supplied by the Board of Dispensing Opticians*) required to administer this examination includes a manual lensmeter, lens measure, flexible millimeter ruler, thickness gauge, fine-tip, water soluble felt tip marker, Optical Laboratories Association Progressive Identifier, and scratch paper. Applicants are required to supply their own lens measure, thickness gauge, scientific calculator (if desired), flexible millimeter ruler, and may supply their own non-automatic lensmeter if they wish. All other equipment will be supplied at the test site. A calibrating gauge such as a "Gaugemaster" will be available for applicants to insure the accuracy of their instruments. Two test proctors should be available: one to confirm applicant identification, sign in test applicants, and provide calibration devices; a second can administer as many as eight (8) examinations per test session.

This practical examination is based on the following reference material.

Brooks, C.W. *Understanding Lens Surfacing*. Butterworth-Heinemann, Boston, 1992.

Brooks, C.W. *Essentials for Ophthalmic Lens Work*. Butterworth-Heinemann, 1983.

Brooks, C.W., and Borish, I.M. *System for Ophthalmic Dispensing*.

Butterworth-Heinemann, Boston, 1996.

Z-80.1-1995 American. *American National Standard for Ophthalmics - Prescription Ophthalmic Lenses - Requirements*. New York: American National Standards Institute, 1995.

Optical Laboratories Association, *Progressive Identifier*.

This practical examination may include but will not be limited to:

- Finding single-vision and multi-focal lens powers using a Crossed-Line-Target Lensmeter;
- Reading lens prescriptions in both plus cylinder and minus cylinder form;
- Determining add power;
- Measuring lens center thickness with lens calipers;
- Checking for horizontal and vertical prism;
- Calculating prismatic effect and bicentric grinding corrections;
- Measuring base curves and seg width;
- Measuring distance between centers, and determining "distance PD," and "near PD" using fabricated eyeglasses;
- Quote and apply ANSI Z80-1995, standards;
- Identify and calculate inset, seg inset, and total inset;
- Measure seg height and determine seg drop;
- Knowledge of proper frame alignment and conventional frame adjustment tools;
- Identify lenses by both product name and manufacturer;
- Progressive addition lenses areas include monocular decentration, distance reference point, prism reference point, fitting cross, near reference point, manufacturer's hidden identifying logo, hidden reference points, hidden add power engraving, recommended minimum height, and prism thinning.

QUALIFICATIONS OF CONTRACTOR

Roy R. Ferguson, Ph.D.

Education:

- Walden University, Ph.D., Administration/Management
- Tusculum College, Master of Arts, Management
- Tusculum College, Bachelors of Science, Business Management

Licensure Application Review Experience:

- Tennessee State Board of Dispensing Opticians (Licensing Board), 1988 – 1991
- Testing Contractor, North Carolina State Board of Opticians:
 - Theory of Light;
 - Rx Interpretation;
 - Ophthalmic Lenses Examination;
 - Measurements of the Face;
 - Ophthalmic Lens Surfacing, Finishing;
 - Practical Anatomy of the Face;
 - Eyeglasses Practical Examination.

Examination Experience

- Opticianry Program Director, Roane State Community College, 1989 – 1996
- Approved 3 Semester Hour College-Level Courses
 - Charter Oak State College, New Britain, Connecticut
 - Introduction to the Optical Business
 - Organizational Behavior for the Ophthalmic Professional
 - Assessment of the Visual System
 - Introduction to Ophthalmic Optics
 - College-Level Courses Submitted for Approval
 - Charter Oak State College, New Britain, Connecticut
 - Business Ethics – 3 Semester Hours
 - Consumer Behavior – 3 Semester Hours
 - Growing and Managing an Entrepreneurial Business – 3 Semester Hours

Alaska

**Department of Community
and Economic Development**

Division of Occupational Licensing

P.O. Box 110806, Juneau, AK 99811-0806

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Email: license@dced.state.ak.us • Website: www.dced.state.ak.us/occ/

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LEGISLATIVE AUDIT

January 16, 2002

Pat Davidson, Legislative Auditor
Legislative Budget and Audit Committee
Division of Legislative Audit
PO Box 113300
Juneau, AK 99811

Dear Ms. Davidson:

Thank you for the opportunity to comment on the Board of Dispensing Opticians preliminary audit.

The chair of the Board of Dispensing Opticians submitted an audit response describing the Board's support for a reduction in apprenticeship hours and for contracting for an improved practical exam for spectacles.

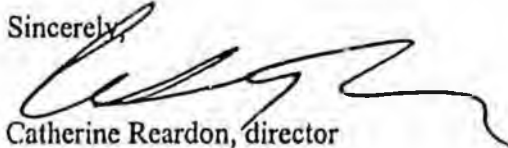
Since the requirements for licensure as an optician are set in statute, the law must be amended to implement the board's recommendations. The board advocates reducing by half the number of apprenticeship hours and replacing those hours with correspondence education. Individuals with an associate degree in opticianry would not be required to serve any apprenticeship and could be licensed after passing the exams. Individuals without opticianry degrees would be required to enroll in a correspondence course called the Career Progression Program at the beginning of their 3,000-hour apprenticeship. They would have to complete the correspondence course and pass the exams to qualify for licensure.

It is my understanding the Career Progression Program costs each student approximately \$800, but it would improve public health and safety, as well as prepare apprentices for the exams. Under the current system, there is no guarantee that apprentices receive comprehensive training during their three to six year apprenticeships.

If education is added to the license qualifications, consideration should be given to the licensure by credentials statute to ensure that experienced opticians who received their training exclusively through apprenticeship in other states are not unintentionally barred from Alaska licensure.

Thank you for considering my comments on the preliminary audit.

Sincerely,



Catherine Reardon, director

Audit Report

DEPARTMENT OF LABOR AND WORKFORCE
DEVELOPMENT
STATE TRAINING AND EDUCATION
PROGRAM

March 6, 2002



Audit Control Number:

07-30005-02

Division of Legislative Audit

P.O. Box 113300, Juneau, Alaska 99811-3300

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DIVISION OF LEGISLATIVE AUDIT

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The committee is responsible for providing the legislature with audits of state government agencies. The programs and activities of state government now cost more than \$6 billion a year. As legislators and administrators try increasingly to allocate state revenues effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by the Division of Legislative Audit helps provide that information.

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ALASKA STATE LEGISLATURE

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March 15, 2002

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

DEPARTMENT OF LABOR
AND WORKFORCE DEVELOPMENT
STATE TRAINING AND EMPLOYMENT PROGRAM

March 6, 2002

Audit Control Number

07-30005-02

One of the main objectives of this audit was to review administration of the state training and employment program (STEP) by the Alaska Human Resource Investment Council and ascertain compliance with state law. We were also asked to review the impact of STEP on the solvency of the unemployment compensation fund and the calculation of employer unemployment insurance tax rates. Further, we were requested to provide detail STEP expenditure information.

The audit was conducted in accordance with generally accepted government auditing standards. Fieldwork procedures utilized in the course of developing the findings and discussion presented in this report are discussed in the Objectives, Scope, and Methodology section.

A handwritten signature in cursive script that reads "Pat Davidson".

Pat Davidson, CPA
Legislative Auditor

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we reviewed the Alaska Human Resource Investment Council's (AHRIC) administration of the state training and employment program (STEP) and other programs with which it is involved, including compliance with state laws and regulations. Additionally, we evaluated the impact of diverting employee unemployment insurance (UI) contributions on the solvency of the unemployment compensation fund and the calculation of employer/employee UI tax rates. Further, we have provided detail STEP expenditure information.

Objectives

The specific audit objectives were:

- Determine whether diversions of employee UI contributions impact the solvency of the unemployment compensation fund.
- Determine whether diversions of employee UI contributions impacted employer UI tax rates.
- Determine whether the practice of diverting employee UI contributions jeopardizes federal funding.
- Evaluate administration of AHRIC and STEP for compliance with statutes.
- Evaluate the STEP grant award process and ascertain whether abuses, such as favoritism, are occurring.
- Provide detail expenditure information giving emphasis to the six statutorily defined program elements.

Scope

We obtained an understanding of STEP administration since the program's creation in FY 90, and focused our review on the five-year period FY 97 through FY 01. Review of AHRIC covered the period FY 97 through FY 01. We also reviewed the newly created Alaska technical and vocational education program's impact on UI trust fund solvency. This review encompassed FY 01.

Methodology

Our evaluation of AHRIC and STEP involved reviewing, analyzing, and testing the following:

- State statutes and regulations

- AHRIC Board minutes, committee reports and various publications
- Selected reimbursable service agreements, grant awards, and contracts
- STEP-related request for proposals and scoring/evaluation documentation
- STEP expenditure and budget documentation maintained by the State and service delivery area (SDA) administrative agencies
- STEP client files
- Alaska Training and Vocational Education expenditure documentation
- Attorney General opinions and memorandums of understanding
- Department of Labor and Workforce Development (DLWD) job training promotional materials

Additionally, we interviewed the following individuals:

- DLWD internal auditors
- Alaska Workforce Investment Office program coordinator and staff involved with STEP grants
- AHRIC executive director and program staff
- Municipality of Anchorage and Balance of State job training program coordinators and program staff
- DLWD, Division of Employment Security director and assistant director
- DLWD deputy commissioner
- Attorney with the Legislative Legal and Research Services office

ORGANIZATION AND FUNCTION

The Department of Labor and Workforce Development

Under the provisions of Title 23 of the Alaska Statutes, the Department of Labor and Workforce Development (DLWD) is charged with fostering and promoting the welfare of the wage earners of the State, improving working conditions, and advancing opportunities for profitable employment. The department is responsible for:

- administering employment services, unemployment insurance, and workers' compensation programs,
- enforcing laws and regulations dealing with job safety, hours of work, wages, work conditions, and public employer/employee labor relations, and
- collecting, analyzing, and disseminating labor and population statistics.

Included in the provisions of Title 23 is the Employment Security Division Act.

Employment Security Division

DLWD's Employment Security Division promotes employment, economic stability, and growth by operating a no-fee labor exchange that meets the needs of employers, job seekers, and veterans. By statute, the division's mission is to promote employment and economic stability by responding to the needs of employers and job seekers.

To ensure that job ready workers are available to meet employer needs, the Employment Security Division administers three complementary programs: Employment Services, Unemployment Insurance, and job training through a network of Alaska Job Centers throughout the state. Employment Services includes job placement, job matching and referral, vocational counseling, and job search assistance. Unemployment Insurance provides for the payment of temporary benefits to eligible, unemployed workers while they are seeking employment. Job training services are designed to meet the unique needs of individuals who wish to enter or re-enter the job market, with particular assistance for unemployed workers, low-income adults, youth and others who need help finding stable employment.

Alaska Human Resource Investment Council

Alaska Human Resource Investment Council (AHRIC) is a Governor-appointed council which is organizationally associated with DLWD's commissioner's office. AHRIC provides policy oversight to the Governor and legislature regarding state and federally funded job training and vocational education programs. AHRIC's mission is to facilitate the process necessary to create and maintain an efficient, effective, and integrated human resource investment system. Members of AHRIC represent stakeholder groups in workforce

development, bringing together public and private sector training providers with employers, so people are being trained for appropriate employment. Council members look at employment trends and emerging occupations to customize training and prepare Alaskans for high demand jobs.

Job Training Programs

State administration of job training programs is organizationally located within DLWD's Alaska Workforce Investment Office. Job training programs are guided by business and community leaders throughout the state. These leaders are represented on the Alaska Workforce Investment Board, and through local workforce investment boards. For purposes of providing services, the state is divided up into two workforce investment areas (referred to in this report as service delivery areas (SDAs)):

- The Municipality of Anchorage and communities within the Mat-Su Borough.
- The Balance of State – areas of the state outside the Municipality of Anchorage and the Mat-Su Borough.

Job training provides help to eligible persons with the ultimate goal of moving them into permanent, self-sustaining employment. Grants are available for state vocational education coordination; older worker training; youth employment and training; a program for dislocated workers, and adult and youth training. The main funding source for job training programs is the Federal Workforce Investment Act program and the State's Training and Employment program.

Training providers may be state and local governments, public and private nonprofit agencies, Native organizations, community-based organizations, educational agencies, labor organizations, and for-profit businesses.

BACKGROUND INFORMATION

State training and employment program (STEP) created in FY 90

STEP was created to address a finding by the legislature that an inadequate number of jobs existed in Alaska to meet the needs of those seeking employment. Alaskans were having difficulty finding jobs, a situation which was exacerbated by the changing technological needs of employers. Since its initial authorization in 1989 as a two-year pilot program, STEP has been reauthorized several times. Authorization for the program ends June 30, 2002, unless legislation is approved to continue the program. Legislation was introduced during January 2002 to reauthorize STEP and make it a permanent program.

Original legislative intent language specified three main program objectives:

- To help prevent future claims against unemployment benefits
- To foster new jobs by encouraging businesses to locate in the state due to availability of a skilled labor force and by minimizing employers' unemployment costs
- To increase training opportunities to those workers severely affected by the fluctuations in the state economy or technological changes in the workplace in the state

Not all residents of Alaska are eligible to participate in STEP. Exhibit 1 shows the statutory definition of people to be served by STEP. Eligibility is limited to three main groups:

- unemployed individuals eligible to receive unemployment insurance benefits or who have exhausted the right to receive benefits within the past three years,

Exhibit 1

Eligibility Criteria

AS 23.15.635 limits STEP services to residents who

- (1) *are unemployed and*
 - (a) *are receiving unemployment insurance benefits; or*
 - (b) *have exhausted the right to unemployment insurance benefits within the past three years;*
- (2) *are employed, but liable to be displaced within the next six months because of*
 - (a) *reductions in overall employment within a business;*
 - (b) *elimination of the worker's current job; or*
 - (c) *a change in conditions of employment requiring that, to remain employed, the employee must learn substantially different skills that the employee does not now possess; or*
- (3) *have worked in a position covered by AS 23.20 at any time during the last three years, and are not currently eligible for unemployment insurance benefits because*
 - (a) *their employment has been seasonal, temporary, part-time, or marginal;*
 - (b) *their qualifying wages are insufficient because of limited job opportunity; or*
 - (c) *they are employed but, because they are underemployed, they are in need of employment assistance and training to obtain full employment.*

- people currently employed but liable to be displaced within the next six months for specific reasons, and
- people who have contributed to the employment security program during the past three years but are not eligible to receive benefits for specific reasons.

AS 23.15.640 specifies that an entity receiving STEP funding shall provide at least one of the following six program elements:

- Industry-specific training
- On-the-job training
- Institutional/classroom job-linked training
- Support services (including allowances)
- Relocation assistance
- Tools, work-related clothing, safety gear, or other items necessary to obtain or retain employment

Alaska Human Resource Investment Council (AHRIC) formed in FY 97

AHRIC is the lead state planning and coordinating entity for state human resource programs. Additionally, AHRIC acts as the lead planning agency for several federal programs. The federal program that has occupied most of AHRIC's resources is the Job Training Partnership Act (JTPA) program. In FY 01, JTPA was replaced by the federal Workforce Investment Act (WIA) program. AHRIC played a major role in planning for the transition from JTPA to WIA and continues as the lead planning agency for WIA.

According to AS 23.15.645, DLWD is required to award AHRIC a grant to administer STEP and make subgrants to qualified training entities. AHRIC works with DLWD's Alaska Workforce Investment Office (AWIO) to determine the amount of STEP funding to allocate for training. AWIO assists AHRIC with issuing the STEP grant awards and monitoring use of the funds.

Administration of STEP tied closely to administration of JTPA/WIA

Since its creation in FY 90, STEP administration has mirrored the procedures already in place to administer the federal JTPA program. As was customary for the JTPA program, the training portion of STEP funding was transferred to the state's Job Training Partnership Office (AWIO's predecessor). Using information prepared by DLWD's research and analysis office¹, JTPO would award grants for providing services in the three service delivery areas (SDAs): Fairbanks, Statewide, and the Anchorage/Mat-Su area.

In each SDA, private industry councils (PICs) had been formed under JTPA to serve as its policy/program arm. Their purview was extended to encompass STEP. These entities

¹ Information included a non-resident hire report, unemployment statistics, unemployment insurance claims, occupational and industrial projections and other relevant data. The information was used to prepare a prioritized list of targeted projects or services.

solicited and awarded grants to other entities to provide STEP services, provided services themselves or contributed funds for individualized training. The City of Fairbanks served as the Fairbanks SDA administrative agency. In Anchorage, the Municipality of Anchorage (MOA) served as the administrative agency. The state employed a statewide SDA coordinator and also served as the administrative agency for the statewide SDA.

When JTPA was replaced by WIA, the SDAs were restructured into two main areas; the Anchorage Mat-SU area and the Balance of State (BOS) area. PICs were replaced by local workforce investment boards and the JTPO was renamed the Alaska Workforce Investment Office (AWIO). The change in SDA names can be seen by comparing FY 99 to FY 00 summary STEP expenditure tables in appendix A of this report.

STEP funding reaches clients in one of two ways. One is the referral process in which the state or municipal employment coordinators work directly with clients to assess their need for training or support services. This process determines which vendor or training institution would best meet a client's needs. The other is through the SDA grant award process. Grantees are often required to recruit STEP eligible individuals and assist with the placement of trainees.

The unemployment compensation fund and the unemployment insurance (UI) tax rates

Unemployment compensation is a self-supporting insurance program. Over the long run, employer and employee UI tax contributions must be enough to pay benefits to claimants. All states have an unemployment insurance program. However, Alaska is one of only two states that tax employees. In other states, employers bear the full cost of the UI program.

Employers make payments to the UI system in two different ways. Employers are either taxable or reimbursable. In order to become reimbursable, an employer must apply to DLWD. Taxable employers make quarterly tax payments, determined by their assigned tax rate and the amount of taxable payroll. Reimbursable employers repay the UI trust fund for the amount of UI benefits paid to their former employees. Reimbursable employers are generally large organizations with stable workforces, such as state and municipal governments, but also include private, non-profit organizations. Employees working for reimbursable employers do not contribute to the UI program but are eligible for STEP services.

DLWD's article in the July 2001 Alaska Economic Trends publication entitled *Financing UI Benefits*, gives a thorough explanation of the UI tax structure. According to this article, Alaska's tax structure is self adjusting. The tax base automatically adjusts to changes in average earnings, and the tax rate automatically adjusts to changes in benefit costs, payroll, and the trust fund reserve ratio.

The article further states that tax rates have three essential components: the average benefit cost rate, individual employer experience factors, and the trust fund solvency adjustment. Exhibit 2 (page 8) summarizes the formulas for calculating the employer and employee tax rates. The employee tax rate is simpler, involving only the average benefit cost rate. The

employer tax rate incorporates all three components. Exhibit 3 on page 9 shows DLWD's calculation of the 2002 tax rate.

The average benefit cost rate is defined as the cost of benefits over the most recent three-year period ending June 30, divided by the total taxable payroll of contributing employers over the first three of the last four years ending June 30. According to DLWD, basing the calculation on three-year periods makes the system "counter-cyclical." This means that contribution rates increase slowly or even decrease during recessions as the trust fund is drawn down, then increase more rapidly during periods of economic stability or growth to replenish the fund.

Exhibit 2

Tax Rate Formulas

Employer tax rate = the trust solvency adjustment plus eighty percent of the average benefit cost rate adjusted for experience

Employee tax rate = twenty percent of the average benefit cost rate

Prior to January 1, 1997, employers paid 82 percent of the average benefit cost rate and employees paid 18 percent. Beginning in 1997, employees began paying 20 percent and employers' contribution declined to 80 percent.

The experience factor also impacts employer rates. Experience factors are designed to require employers that have a high rate of layoffs to contribute more to cover the extra costs of benefits. Experience factors are assigned by DLWD and are based on employers' wage history and the timeliness of reports and payments.

The trust fund solvency adjustment is the final component of employer tax rates. Its purpose is to ensure that the unemployment compensation fund balance is sufficient to provide benefits during recessions. According to DLWD, the benefit cost rates are not always adequate to do this. Therefore, a surcharge is added to employers' tax rates if the trust fund reserve rate falls below 3 percent. A credit is provided to reduce employers' tax rates if the reserve rate equals or exceeds 3.3 percent. The trust fund solvency adjustment is applied uniformly to all employers at a rate between negative .4 percent to positive 1.1 percent, depending on the trust fund reserve rate, in accordance with schedule in AS 23.20.290(f). The solvency adjustment may be increased or decreased by only a maximum of .3 percent from one year to the next. Exhibit 3 (page 9) shows the tax rate calculation for 2002. After the employer rates are calculated, they are adjusted for each employer based on their experience rating.

Establishment of Alaska Technical and Vocational Education (ATVE) program

In FY 01, AS 23.15.820 through AS 23.15.850 created the ATVE program to award grants to technical and vocational entities. ATVE grants must be used for industry-specific training, on-the-job training, or institutional or classroom job-linked training. AHRIC is charged with administering the program and developing regulations to carry out its purpose.

During the first year of the program, ATVE proceeds were not awarded through the grant award process. Proceeds of approximately \$4 million were directly appropriated to the following entities for programs consistent with the ATVE program and capital improvements: University of Alaska (\$2,215,386), Kotzebue Technical Center (\$681,657) and the Alaska Vocational Technical Center (\$1,363,315). According to the sponsor statement for the initial legislation, funds were appropriated directly to these entities because AHRIC would not have the opportunity to develop regulations and solicit grant applications. Our review found that almost all of the FY 01 ATVE appropriation was used for capital projects.

| Exhibit 3 | | | |
|---|---------------------|----------------------|-------------------------------------|
| Tax Rate Calculations for 2002 (\$ in millions) | | | |
| | (A) Benefit Cost | (B) Total Payroll | (C) Taxable Payroll ² |
| FY 1998 | | \$6,125 | |
| FY 1999 | \$107 | \$6,310 | |
| FY 2000 | \$101 | \$6,631 | |
| FY 2001 | \$99 | \$6,998 | \$4,528 |
| (D) Benefit Cost for 3 Previous FY | | | \$307 |
| (E) Total Payroll, First 3 of Last 4 FY | | | \$19,066 |
| (F) 3-Yr Benefit Cost/Total Payroll (D)/(E) | | | 0.016 |
| (G) Taxable/Total Payroll, Last FY (C)/(B) | | | 0.647 |
| (H) Average Benefit Cost Rate (F)/(G) | | | 0.025 |
| (I) UI Trust Fund Balance, Sept. 30 | | | \$223 |
| (J) Total Payroll, Last FY | | | \$6,998 |
| (K) UI Trust Fund Reserve Rate (I)/(J) | | | 0.032 |
| (L) Solvency Adjustment (per table in AS 23.20.290(f)) | | | 0.000 |
| (M) Average Employer Tax Rate as a Percent of Taxable Payroll (Eighty percent of (H) plus (L)) | | | 1.99% |
| (N) Average Employee Tax Rate (Twenty percent of (H)) | | | 0.50% |
| <i>Provided by DLWD, Division of Employment Security</i> | | | |

² State taxes are assessed on wages up to a set taxable wage base. The tax base is defined in AS 23.20.175(c) as 75% of the average annual earnings in covered employment for the immediately preceding year ending June 30. The state taxable wage base in 2001 was \$25,500.

Funding for the STEP and ATVE programs

Both STEP and ATVE are funded through employee UI contributions. Per statute, employee UI contributions to the unemployment compensation fund (referred to in this report as the UI trust fund) are transferred into the STEP and ATVE accounts within the General Fund. The amount of the transfer for each program is equal to one tenth of one percent of wages subject to the UI tax. Based on the tax rate calculations for 2002 (Exhibit 3, page 9), a total of 40% of employee contributions will be diverted for the STEP and ATVE programs.

UI trust fund balance statistics

During our review, we compiled UI trust fund statistics: average fund balance, total benefits paid, total STEP diversions, total ATVE diversions and the amount transferred from the STEP account to the UI trust fund. The information in Exhibit 4 is provided from FY 90 through FY 01.

Exhibit 4

| Fiscal Year | Average UI trust fund balance | Total UI Claims Paid | STEP Diversions | ATVE Diversions | Transfers from STEP to UI |
|-------------|-------------------------------|----------------------|-----------------|-----------------|---------------------------|
| 90 | \$177,134,283 | \$101,860,000 | \$2,162,860 | \$ 0 | \$ 0 |
| 91 | 218,703,292 | 120,518,789 | 3,103,325 | 0 | 1,743,618 |
| 92 | 226,616,664 | 166,375,690 | 3,800,144 | 0 | 1,271,061 |
| 93 | 220,606,153 | 187,717,936 | 3,860,988 | 0 | 1,807,305 |
| 94 | 211,899,005 | 184,655,582 | 3,477,874 | 0 | 512,538 |
| 95 | 197,568,757 | 137,395,057 | 3,550,270 | 0 | 577,698 |
| 96 | 186,785,877 | 141,281,857 | 3,727,263 | 0 | 836,022 |
| 97 | 182,195,243 | 132,590,356 | 3,695,470 | 0 | 793,470 |
| 98 | 191,341,143 | 128,184,905 | 3,880,418 | 0 | 306,428 |
| 99 | 198,438,373 | 133,504,579 | 4,317,506 | 0 | 0 |
| 00 | 195,979,350 | 126,574,515 | 3,852,417 | 0 | 0 |
| 01 | 208,201,423 | 122,342,638 | 4,262,856 | 4,260,358 | 0 |

Special status as a dedicated revenue source

Employer and employee UI tax contributions are dedicated sources of revenue under the "grandfather clause" contained in Art. IX, Sec. 7 of the Alaska Constitution. This means that the taxes can be collected and used for a specific purpose rather than deposited into the State's General Fund and made subject to the legislative appropriation process. Our review of STEP raised concerns that diverting a portion of employee contributions may compromise its special status as a dedicated revenue source.

An attorney general's opinion dated August 19, 1983 states:

Consequently, the intent of the drafters of the Constitution of the State of Alaska was to permit the continuance of existing dedications at the then existing rates until the legislature saw fit to exercise the only power retained in relation to them: that is, the power to repeal.

It goes on to state:

A dedication must be continued, if at all, in exactly the same form. Any attempted alteration short of repeal is a nullity. A dedication encompasses (1) proceeds or part of the proceeds of a tax or license (2) set aside at a certain rate (3) for a particular purpose. The legislature has no power to raise or lower the dedication by increasing or decreasing the tax or license fee or the rate thereof which is set aside. Also there is no power to broaden or reduce the purposes for which an existing dedication is made, for to do so is to alter the dedication itself.

We contacted the Legislative Legal and Research Services office regarding this issue. They provided, in part, the following guidance:

The funding mechanism of the STEP and ATVE programs do not violate the constitution in and of themselves but they could readily be seen as modifications to the dedicated fund of employee contributions to the UI fund. This could in turn threaten the continued existence of the employee contributions as a dedicated fund. The court might find that the two diversions were in reality a change in the purpose of the original dedicated fund and thus cause the entire dedication to be ended. Alternately the court might find that the dedication rate was lowered by these diversions to the STEP and ATVE programs, and that the dedication continues in its diminished state, but that it cannot be increased again to its former level without destroying the grandfathered dedication. This interpretation would be difficult to explain in light of the constant fluctuation in the rate of employee contributions as required by the UI fund to sustain itself.

In summary, it is difficult to determine how courts would rule on the diversions of employee contributions. As such, attorneys can only guess as to the impact of the STEP and ATVE diversions on UI's special status as a dedicated revenue source. If employee contributions have lost their dedicated funding status, then it would be necessary for the legislature to appropriate the employee contributions to the UI fund. Regardless of the employee contribution dedication status, the revenues being diverted for STEP and ATVE programs should be appropriated to those accounts within the State's General Fund.

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REPORT CONCLUSIONS

In recent years, AHRIC has taken more of a leadership role for the STEP program

AHRIC played a minimal role in guiding the STEP program during FYs 97 through 99. Review of committee minutes and other AHRIC documentation showed that the council focused its efforts on gathering information from stakeholders regarding the training and employment needs of Alaskans. However, until FY 00 this important information was not translated into formal guidance for DLWD regarding target areas for the use of STEP funding.

In May 1999, AHRIC created and approved a STEP plan. Exhibit 5 summarizes its main action steps. A more comprehensive STEP plan was also created by AHRIC for inclusion in the WIA unified plan in April 2000.

AHRIC has generally complied with statutes

We reviewed actions taken by AHRIC to comply with its enabling statutes. Alaska statutes list numerous duties and functions that AHRIC must perform. Many of the statutory requirements were effective in FY 99.

In general, our review concluded that AHRIC had taken action to comply with its statutory requirements. The council created a statewide policy for a coordinated and effective employment training and education system in the state (also referred to as its strategic plan). It participated in forming business learning consortia in Alaska for the health care; oil, gas and mineral processing; information technology; and transportation industries. AHRIC reviewed the provision of services and the use of money and resources by human resource programs. Additionally, it developed performance standards to be used to evaluate results of workforce training programs and recommend areas for improvement. Further, statutes require that AHRIC review specific programs administered by various state departments to determine whether the programs fall within its oversight. AHRIC accomplished this review and concluded none of the programs were within its oversight authority.

However, AHRIC has not taken timely action to comply with AS 23.15.580(b)(11). This statute required AHRIC adopt regulations to carry out its duties. AHRIC finished the draft regulations in FY 01. At the time of this review, the regulations were still being reviewed by the Attorney General's office.

Exhibit 5

STEP Plan Action Steps

May 21, 1999

- Market STEP to employers
- Support Job Center employment assistance activities
- Create a Governor's Discretionary Fund for statewide activities (15% of total)
- Reduce administrative reporting by eliminating certain unnecessary reports
- Develop a uniform STEP grant and grant process
- Develop a full STEP plan for inclusion in the WIA Unified Plan.

Improvement needed in the administration of STEP in order to comply with statutes

We were asked to evaluate whether STEP was being administered in accordance with statutes and regulations. Generally, we found that STEP was being administered in accordance with statutes, with five main exceptions.

Only a portion of people eligible for STEP are served by the program

Statutes have made STEP services available to many Alaskan residents. (See Background Information for the statutory eligibility guidelines for STEP.) However, only a portion of the people eligible for STEP know about the program's services. This is due to the way STEP has been administered.

Under its current administration, there is no systematic marketing effort to make eligible people aware of the STEP program. People may learn about the availability of services while working with state or municipal employment coordinators. According to MOA employment coordinators, word-of-mouth is the most common way people learn about the availability of STEP. STEP grantees may recruit through the media for individuals to attend specific training. However, recruitment is generally limited to individuals interested in a specific industry.

The scope of services in MOA's STEP grants limits eligibility to the unemployed. Since approximately 80 percent of MOA's STEP expenditures are incurred by its grantees, we conclude that most of MOA's STEP funds are serving unemployed individuals. MOA stated that its one-stop centers adequately serve other STEP eligible individuals (such as individuals expecting to be laid off or displaced and those that are underemployed). We disagree with that statement based on a general lack of outreach for the STEP program to currently employed Alaskans.

In summary, SDAs and DLWD are failing to reach all those eligible for STEP. This is further discussed under Recommendation No. 1 in the Findings and Recommendations section of this report.

STEP is displacing federal and possibly private training funds

STEP was created to assist those individuals who failed to meet JTPA's strict eligibility requirements, and to provide training services for people who needed training but weren't being served through other federal, private or public training programs. STEP was intended to augment existing services, and to be used only after federal, private or public training funds have been exhausted. See Exhibit 6 (page 15) for the statutory prohibition against displacing other training programs/funds.

As part of our review of client files, we found SDAs were not consistently requiring federal JTPA/WIA programs be utilized before STEP funds were authorized. As discussed in Recommendation No. 7, we tested 50 client files at MOA. We found that in 11 of the 50

cases (22%), MOA employment coordinators used STEP funds when clients were potentially eligible for JTPA/WIA.

Of the ten FY 00 HRC client files tested (MOA's contractor that serves the Mat-Su area), we found that three clients should have been eligible for JTPA. July 2000 was the first time HRC staff were made aware of the requirement to use STEP only after other funding sources were exhausted. We did not find similar errors when testing HRC's FY 01 client files.

Our review of BOS³ client files found no such errors. However, we did detect that both BOS and MOA grantees were funded with STEP funds even though WIA

funding had not been exhausted. Per the BOS state coordinator, STEP grantees are not required to ascertain each person's eligibility for WIA when recruiting. This type of determination would require a thorough knowledge of WIA federal regulations which STEP grantees often do not have. Both MOA and BOS carried forward federal WIA funding into FY 02. MOA carried forward over \$676,000 of adult and dislocated worker funding, and BOS carried forward approximately \$2 million in adult and dislocated worker funding. Using STEP funds before exhausting federal funds violates AS 23.15.651.

STEP also potentially displaced private funding through union training programs. STEP funding of union-sponsored training programs has increased dramatically. In FY 97, unions received approximately \$277,000 of STEP funds. In FY 01, unions received approximately \$759,000. Both AHRIC's executive director and AWIO's program coordinator praise the partnership between STEP and unions, stating that STEP money is leveraged with union funding which allows for more people to be trained with less STEP funding. Further, unions are credited with placing trainees in good paying jobs.

We acknowledge that unions are a valuable partner in training Alaskans. However, given that unions have a funding source for training through their dues collection process, we question how DLWD and AHRIC ensure that STEP funding is not being used by unions to supplant rather than to leverage.

Exhibit 6

Prohibition against displacing other training programs/funds

AS 23.15.651. Duties of Alaska human resource investment council; grant; eligible entities.

Section (a)(2) states

Its activities do not replace or compete in any way with a federally approved, jointly administered apprenticeship program or any other existing training programs.

Section (a)(2)(b) states

The council may not award a grant if the grant would displace money available through existing public or private training programs.

³ BOS refers to Balance of State, the service delivery area not covered by MOA.

Requirement to reimburse department not actively enforced

Effective in FY 01, AS 23.15.640(c) required that STEP clients, to the extent it is economically feasible, reimburse the state for the receipt of tools, work-related clothing, safety gear or other items necessary to obtain or retain employment. It also required DLWD implement this requirement by regulation.

In response, AWIO created a promissory note that STEP clients are required to sign prior to the receipt of such items. It also codified reimbursement requirements in draft regulation 8 AAC 87.135. Under this regulation, only people who meet *all* of the following conditions are required to repay the cost of provisions.

- The participant has exited STEP.
- The participant has been continuously employed for a minimum of six months.
- The participant, following exit of the program, has earned an income which is at least twice the federal lower income level during the six month period (approximately \$20,500 for a single person and \$45,000 for a family of four).
- The participant has no financial circumstances that prevent repayment.

We question the effectiveness of this regulation. In our view, limiting application of the reimbursement statute to those STEP graduates who enter continuous employment and receive a minimum of \$20,500 in wages within six months is unduly restrictive. At the time of our review, no repayments had been received by DLWD or its grantees.

We also found that DLWD has no procedures in place to enforce the promissory notes signed by STEP participants. Staff working with STEP clients did not know which agency was responsible for collecting the repayments. The database is not collecting the detailed financial information necessary to identify STEP clients that meet the conditions specified in regulation.⁴ Further, no procedures are in place to notify clients when reimbursement is expected.

Statutory program elements do not include employment assistance

As discussed in the STEP Expenditure Analysis section of this report, one of the activities funded by STEP is employment assistance. Employment assistance includes assessment, counseling, resume preparation, and similar activities to help a person obtain employment without providing specific training. Much of employment assistance expenditures go toward paying wages and benefits for state and municipal employment coordinators. These costs are a significant category of STEP expenditures.

AS 23.15.640 specifies that an entity receiving STEP funding shall provide at least one of six program elements: industry-specific training, on-the-job training, institutional/classroom job-linked training, support services (including allowances), relocation assistance, or tools, work-

⁴ The shortcomings of STEP's database and format for financial reporting are discussed in Recommendation No. 6 in the Findings and Recommendations section of this report.

related clothing, safety gear, or other item necessary to obtain or retain employment. Employment assistance is not covered under any of the six program elements. Therefore, it is questionable whether these costs are considered allowable under STEP.

DLWD contends that employment assistance is a type of support service, which is an allowable program element. We disagree. STEP was created to fill the training gap left by JTPA and was intended to be used as a last resort. DLWD employment assistance activities funded, in part, by the federal Wagner Peyser program were available to clients prior to the creation of STEP. If STEP was intended to be used for such activities, we believe it would have been a specifically allowable program element in statute. However, we do agree with DLWD that assessment and counseling activities are essential to the determination of training needs, and that resume preparation and similar activities are often the most cost effective means of moving a client into employment. As such, DLWD should consider pursuing legislation to specifically identify employment assistance as an allowable STEP program element.

Administrative costs exceed maximums defined in statute

Alaska statutes provide two separate methods of calculating allowable STEP administrative expenditures. AHRIC and DLWD must comply with both. The first, AS 23.15.645(e), became effective in FY 97. It defined maximum administrative costs as 20 percent of STEP proceeds (revenue). AS 23.15.645 (e) states:

In making a grant under this section, the council shall require that the qualified entity and grantees of the qualified entity limit the amount of the grant proceeds spent on administration so that the total spent on administration from the proceeds of the employment assistance and training program account, including amounts spent by the council itself, does not exceed 20 percent. The amount collected and remitted in accordance with the shared cost requirements of the federal office of Management and Budget Circular A-87 entitled "Cost Principles for State and Local Governments" is not considered an amount spent on administration under this subsection.

The second, AS 23.15.580(b)(8), became effective in FY 99. It defined maximum administrative expenses as 15 percent of STEP expenditures. AS 23.15.580(b)(8) states:

[the council shall] adopt regulations that set standards for the percentage of a grant that may be used for administrative costs; the regulations must clearly identify and distinguish between expenses that may be included in administrative costs and those that may not be included in administrative costs; the percentage allowed for administrative costs may not exceed the lesser of 15% or the amount permitted under the requirements of a federal program, if applicable.

In order to comply with the administrative maximum in statute, DLWD began budgeting for administrative costs by multiplying the STEP authorization by 20 percent. Our review found that STEP administrative expenditures were 14 percent of STEP proceeds in FY 97 and 13 percent in FY 98, well within the 20 percent maximum defined in statute.

When AS 23.15.580(b)(8) became effective in FY 99, DLWD failed to recognize that compliance now limited administrative costs as a percentage of STEP expenditures rather than STEP proceeds. DLWD lapsed significant amounts of training funds, yet spent most of its budget for STEP administration. Consequently, administrative costs were 24 percent of STEP expenditures in FY 99, 23 percent in FY 00 and 21 percent in FY 01. These percentages are far in excess of the 15 percent statutory maximum. See Recommendation No. 4 in the Findings and Recommendations section of this report for further discussion.

Testing found no indication of favoritism in awarding grants or referring clients to vendors

We reviewed the procedures used by SDA administrative agencies when awarding STEP funds to grantees. Both MOA and BOS used a request for proposal (RFP) process whereby a notice is published soliciting grant proposals. Proposals are then reviewed and scored by a committee using standard criteria. Proposals with the highest scores are awarded grants within the limits of available funding.

We conclude that membership on the proposal review committee represented various interests (such as private industry, state agencies, unions, Native organizations, and training organizations) with no interest having more than one vote. Proposals were evaluated using objective criteria and scoring instruments. Further, the RFP and/or grant notification letters informed respondents of the appeal process.

We also tested over 70 client case files and found no indication of favoritism in referring clients to specific vendors. According to employment coordinators, STEP is following in the path of WIA and moving toward client selection. Making the choice the client's responsibility will help reduce the potential for fraudulent dealings between employment coordinators and vendors.

Need and purpose of STEP should be reevaluated in light of changing federal law

The need for STEP was generated by the failure of the federal JTPA program to meet the training needs of Alaskans. Our review found that STEP mainly provided employment assistance and training for individuals determined ineligible for the federal JTPA program. Many people were found ineligible for JTPA because of its restrictive eligibility requirements. For example, in order for an individual with no spouse or dependents to be found eligible for JTPA, he/she could not have earned more than \$5,000 in the past six months and had to possess a barrier to employment. Additionally, JTPA would not pay for industry-specific training. STEP was needed to fill the training void created by JTPA's restrictive eligibility requirements and its prohibition against funding industry-specific training.

In FY 01, WIA replaced JTPA. WIA has much more inclusive eligibility requirements than JTPA and allows funding for industry-specific training. Under WIA, an individual with no spouse or dependents could earn up to \$12,000 and still be eligible. This is over twice

JTPA's income threshold. Further, WIA eliminated the eligibility requirement that an individual also possess a barrier to employment.

Exhibit 7 summarizes the impact of WIA on STEP caseloads. As expected, employment coordinators enrolled fewer clients in STEP due to the availability of WIA. However, clients served by grantees increased. SDAs were not requiring STEP grantees to determine whether clients are eligible for WIA prior to providing STEP funded services. See Recommendation No. 7 in the Findings and Recommendations section of this report for additional discussion regarding STEP displacing federal training funds.

In summary, WIA has addressed many of the reasons STEP was created. In our view, the purpose of STEP should be reevaluated and the program restructured in order to more fully serve to the state's current training and employment needs.

Exhibit 7

STEP Caseloads Decrease in FY 01

We compared STEP caseloads in FY 00 (under JTPA) to FY 01 (under WIA) for BOS and HRC which administers STEP in the Mat-Su area. The comparison shows a dramatic decrease in STEP clients served by employment coordinators.

MOA activity is not included because they did not keep client data that identified whether the client was served by an employment coordinator or a grantee/vendor. MOA's total STEP caseload remained stable (387 in FY 00 and 388 in FY 01). HRC does not pass through STEP funding to grantees, therefore, its entire caseload is served by employment coordinators.

| | BOS | | | HRC | | |
|-------------------------|-------|-------|----------------|------|------|----------------|
| | FY 00 | FY 01 | Percent Change | FY00 | FY01 | Percent Change |
| Employment Coordinators | 677 | 323 | (52%) | 149 | 45 | (70%) |
| Grantees/Vendors | 434 | 707 | 63% | 0 | 0 | 0% |

Since WIA's eligibility requirements are more inclusive, we expected employment coordinators to find fewer clients eligible for STEP during FY 01 than in FY 00. We also expected to see a similar decline in STEP clients served by grantees. However, this was not the case in FY 01.

There are two main reasons that STEP clients served by grantees increased rather than decreased. First, BOS administrative staff anticipated a decrease in clients served by its employment coordinators and made more of its STEP funding available to grantees. The additional funding allowed grantees to perform more recruitment and outreach for the program thus, STEP clients increased. Secondly, STEP grantees were not required to determine whether clients were eligible for WIA. New clients were therefore funded through STEP, thus increasing the number of clients served by STEP.

No precise measurement available for STEP and ATVE benefits

The STEP program is based on the premise that training turns UI claimants into UI contributors. Each year DLWD's Research and Analysis (R&A) section produces an annual evaluation of the STEP program as required by statute. One of the report's measures of program success is the extent STEP reduces future claims against unemployment. In order to calculate the reduction of claims, R&A compares the amount of claims paid to STEP clients in the five quarters preceding training to the five quarters post-training.

This methodology may be helpful to DLWD for program management. However, it does not provide a precise measurement of the impact of STEP on the UI trust fund which is needed to ascertain whether STEP savings to the UI trust fund equal or exceed the cost of the program. DLWD's methodology has several shortcomings. It includes all individuals exiting from the STEP program regardless of whether they received training from other training programs. In FY 99, approximately 25 percent of people exiting from STEP also exited other training programs during the year. DLWD's method of calculating the reduction of UI claims does not take other training programs into consideration and attributes all of the savings to the STEP program. This potentially overstates savings.

We also question DLWD's methodology of comparing the five quarters pre-training to the five quarters post-training. This practice produces biased results since people may exhaust their eligibility for UI claims and return to the workforce regardless of training.

Another shortfall to DLWD's methodology is that the reduction in claims is calculated for only one year. However, benefits from training may continue for more than one year. Limiting the review to one year understates the resulting savings.

R&A staff stated that the only way to provide a true measurement of UI trust fund savings would be to have a control group for comparison. However, in order to obtain a control group, eligible Alaskans would have to be assigned to the STEP program randomly while others were denied services. R&A staff also stated that the reduction of UI claims is not the only impact to the fund that could be attributed to STEP. Another of STEP's objectives is to attract Alaskan employers through the availability of a skilled workforce. If successful, this would increase the taxable wage base and increase both employee and employer contributions into the fund.

In summary, it is not possible to precisely measure the impact of STEP on the UI trust fund balance. DLWD's method for calculation does not demonstrate that savings equal or exceed the STEP related diversions from the UI trust fund. As discussed below, unless diversions from the fund are recouped through savings, employers' tax rates will eventually increase.

The purpose of ATVE is similar to STEP, yet the magnitude of the financial impact on UI trust fund balance is much different. ATVE is funded in the same manner as STEP, a portion of employee UI contributions are diverted from the UI trust fund and deposited in to an ATVE account. In FY 01, activities funded by ATVE did not result in any direct or measurable benefit to the UI trust fund's balance. This is in contrast to STEP, where at least a

portion of activities result in a reduction of unemployment claims or an increase in the taxable wage base. As a result, the full cost of ATVE is borne by Alaskan employers through increases in the trust solvency factor of employer UI tax rates. The relationship between diverting UI contributions and increases in the trust solvency factor is further discussed below.

STEP and ATVE programs adversely affect the trust solvency factor

STEP is funded by diverting a portion of employee UI contributions. The employee contribution rate is established in statute and does not vary with the changing balance of the UI trust fund. In contrast, the UI tax rate paid by employers is affected by the changing balance of the UI trust fund.

Employer tax rates are adjusted, in part, according to the balance of the UI trust fund. If the UI trust fund balance is below a certain threshold, employer rates are increased by adding a solvency factor to the tax rate in accordance with a statutorily determined scale. Alternatively, if the UI trust fund balance exceeds a set level, rates are reduced through a credit to the employer's tax rates. Ultimately, to the extent that the financial benefits from the STEP and ATVE programs do not equal the amount of the employee diversion, employers will pay the difference through higher UI taxes.

As difficult as it is to measure the financial benefits from the STEP and ATVE programs, it is equally difficult to determine when, and to what degree, employer UI tax rates have been affected. Relying on information from DLWD's R&A section, we estimate that employer UI tax rates were first affected by STEP in 1996.⁵ It appears that employer UI tax rates did not decrease by as much as they would have if there were no STEP program.

It is important to note that only taxable employers, as opposed to reimbursable employers, bear the financial burden of the STEP and ATVE programs. Reimbursable employers pay the actual cost of unemployment benefits paid to their former employees. Changes in the UI trust solvency factor do not affect the amounts paid by a reimbursable employer. Some of the employers who pay UI benefits on a reimbursable basis are large employers, such as the State of Alaska. While the financial burden of the STEP and ATVE programs are borne by taxable employers, participation in the STEP program is available to current and former employees of both taxable and reimbursable employers.

From the federal government's perspective, the funding mechanism for STEP and the ATVE program is of no consequence. The federal government only requires that employers contribute to the state's UI trust fund and that the state's tax structure assures that the fund remains solvent. The trust fund solvency factor insures that the fund maintains an adequate balance to pay benefit costs. Hence, diverting employee contributions does not violate federal law and does not jeopardize federal funding.

⁵ STEP began in 1990.

STEP expenditures from FY 97 through FY 01

Expenditures for STEP are summarized in the STEP Expenditure Analysis section and Appendices A through E of this report. The STEP Expenditure Analysis section discusses the costs to administer STEP, the types of vendor/grantee that received STEP funding and the vendor/grantee activities funded by STEP. Appendix A summarizes STEP expenditures for FY 97 through FY 01 STEP authorizations. Appendices B through E present summary and detail vendor/grantee expenditures for the STEP program elements.

The existing state training and employment program should be reauthorized for four years

Authorization for STEP will expire on June 30, 2002 unless the program is reauthorized. Our review found that the new federal WIA program, effective in FY 01, addressed many of the reasons STEP was created. WIA has more inclusive eligibility requirements causing a decrease in the need for STEP. Our review also found there were many people eligible for STEP who were unaware of the program.

We believe that the purpose of STEP needs to be realigned with the State's current training and employment needs. Because the STEP program needs restructuring, we are recommending that the program not become permanent at this time. Instead, we recommend that STEP be authorized for four years and that DLWD report to the legislature on its progress in addressing this report's findings, recommendations, and conclusions within two years. At that time, DLWD and AHRIC should make recommendations for programmatic modifications to realign the STEP program to fill the State's current training gaps.

At a minimum those recommendations should include:

- Statutory clarification of the allowability of employment assistance as a program element.
- Eliminate AS 23.15.645(e) regarding the administrative cost limitation in favor of AS 23.15.580(b)(8), the more recent statute governing the same cost limitation.
- An action plan, including timelines, for implementing the recommendations made in this report.
- Other statutory or regulatory changes necessary to ensure STEP is the training program of last resort.

A four-year reauthorization time period will give DLWD an opportunity to address the issues identified in this report and restructure the STEP program to meet the current training needs of Alaskan employers and employees.

STEP EXPENDITURE ANALYSIS

As part of the audit request, we were asked to provide annual and cumulative STEP expenditures by grant recipient and program participant from FY 90 through FY 01. State record retention schedules limit retention to the previous three fiscal years, in addition to the current fiscal year. Consequently, we were unable to provide expenditure information prior to FY 97. Further, we were unable to report expenditures summarized by program participant. The participant database was not designed to accumulate detail financial data.⁶ Appendix A of this report summarizes expenditure information for FY 97 through FY 01 STEP authorizations.

Administrative agencies for each SDA were required to provide detail vendor/grantee schedules as part of their STEP annual reports. These reports allowed us to summarize and report detail vendor/grantee expenditure information. Several different sorts of this information are provided in this report to help ascertain whether any abuses, such as favoritism or discrimination, were occurring. The vendor schedules are found in Appendices B through E of this report.

Cost of Administering STEP

The cost of providing STEP training in the SDAs has both program and administration components. Likewise, the cost incurred at the state level has both administrative and program components. Appendix A categorizes FY 97 through FY 01 STEP costs into administration and program categories. STEP expenditures at the state level were mainly incurred by AHRIC, DLWD's Research and Analysis (R&A) section, UI tax revenue collection section, and DLWD's AWIO office. The costs associated with accounting, determining policy, and awarding/monitoring grants were categorized in Appendix A as administrative. The costs associated with analysis performed by R&A were categorized as program because data provided by R&A is required by statute to implement STEP.

| Fiscal Year | Administrative | Program |
|-------------|----------------|---------|
| 1997 | 23% | 77% |
| 1998 | 21% | 79% |
| 1999 | 24% | 76% |
| 2000 | 23% | 77% |
| 2001 | 21% | 79% |

Appendix A also reports administrative costs and program costs and as a percentage of total costs. The table at left summarizes these percentages. Administrative costs as a percentage of total STEP costs remain fairly stable, ranging from 21 percent to 24 percent.

Vendor/Grantee activities funded with STEP

Alaska Statute 23.15.640 requires entities receiving STEP funds to provide one or more program elements. The program elements include industry-specific training, on-the-job

⁶ DLWD's STEP regulations set a maximum training cost of \$10,000 per participant. To comply with this regulation, it would be necessary for DLWD to compile individual participant cost information. However, due to database constraints, this information is not available and DLWD is not capable of monitoring compliance with the regulation.

training, institutional or classroom job-linked training, support services (including allowances), relocation assistance and provision of necessary tools, work-related clothing, safety gear, and other items necessary to obtain or retain employment. DLWD created an additional element, employment assistance, which has been reported as a separate category within each SDA. A brief description of each program element and related activities is provided below. The percentage of costs by program element is based on the combined expenditures for the FY 97 – FY 01 STEP authorizations, for all vendor/grantees (see Appendices B through E of this report). It should be noted that any expenditures incurred directly by administrative agencies within each SDA are not included in this vendor/grantee expenditure analysis. Exhibit 8 (page 25) pictorially summarizes STEP vendor/grantee expenditures by program element.

Employment assistance – is defined by DLWD as worker assessment and counseling services, instruction in resume preparation, job search, work ethic, interviewing and other job readiness skills. Entities providing employment assistance may also refer clients to support services, training and education providers, and jobs or job placement services. In practice, the regulation has been interpreted to mean that grant recipients may provide employment assistance as an alternative to one of the six program elements listed in statute. Employment assistance was used primarily to pay wages of state and municipal employment coordinators and costs of job workshops. These costs were 13% of STEP vendor/grantee expenditures.

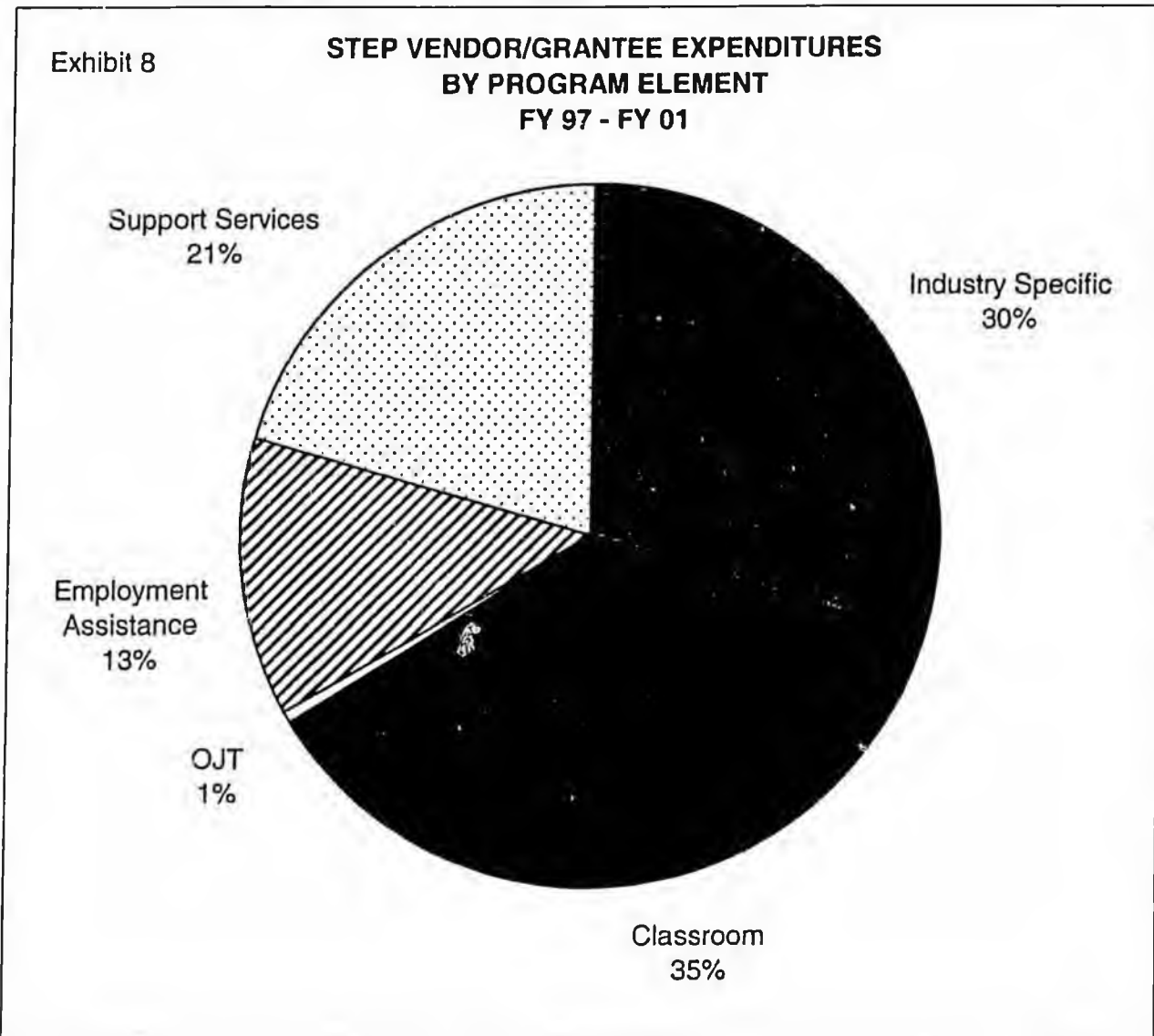
Industry-specific training – is tailored to the needs of specific occupations, industries, employers or groups of employers. This type of training often results in the participant obtaining industry-recognized certifications and acceptance into union apprenticeship programs. Thirty percent of STEP vendor/grantee expenditures provided industry-specific training. Entities providing this type of training consisted of unions, health-care organizations, computing technology and vocational technical education centers.

On-the-job training (OJT) – provides reimbursement to employers or pays wages directly to a participant who is receiving on-the-job training. This category represents only 1 % of STEP vendor/grantee expenditures. Small employers, Native organizations, and individual participants were the major recipients of OJT.

Institutional or classroom job-linked training – is the most popular program element. Thirty-five percent of STEP funding provided institutional or classroom job-linked training. The majority of this type of training was provided by public and private training institutions. Classroom occupational training consisted of nursing, welding, flight and travel school, hair styling, massage therapy, jewelry arts, taxidermy, computing technology, administrative services, and the wide range of occupational training offered by the University of Alaska system.

Support services – is an element that has been combined with two other program elements due to availability of funding. Support services consist of support services, relocation assistance, and the provision of tools, work-related clothing, safety gear, or other items necessary to obtain or retain employment. Current statutes require that support services be provided only to individuals who participate in industry-specific, on-the-job, or institutional

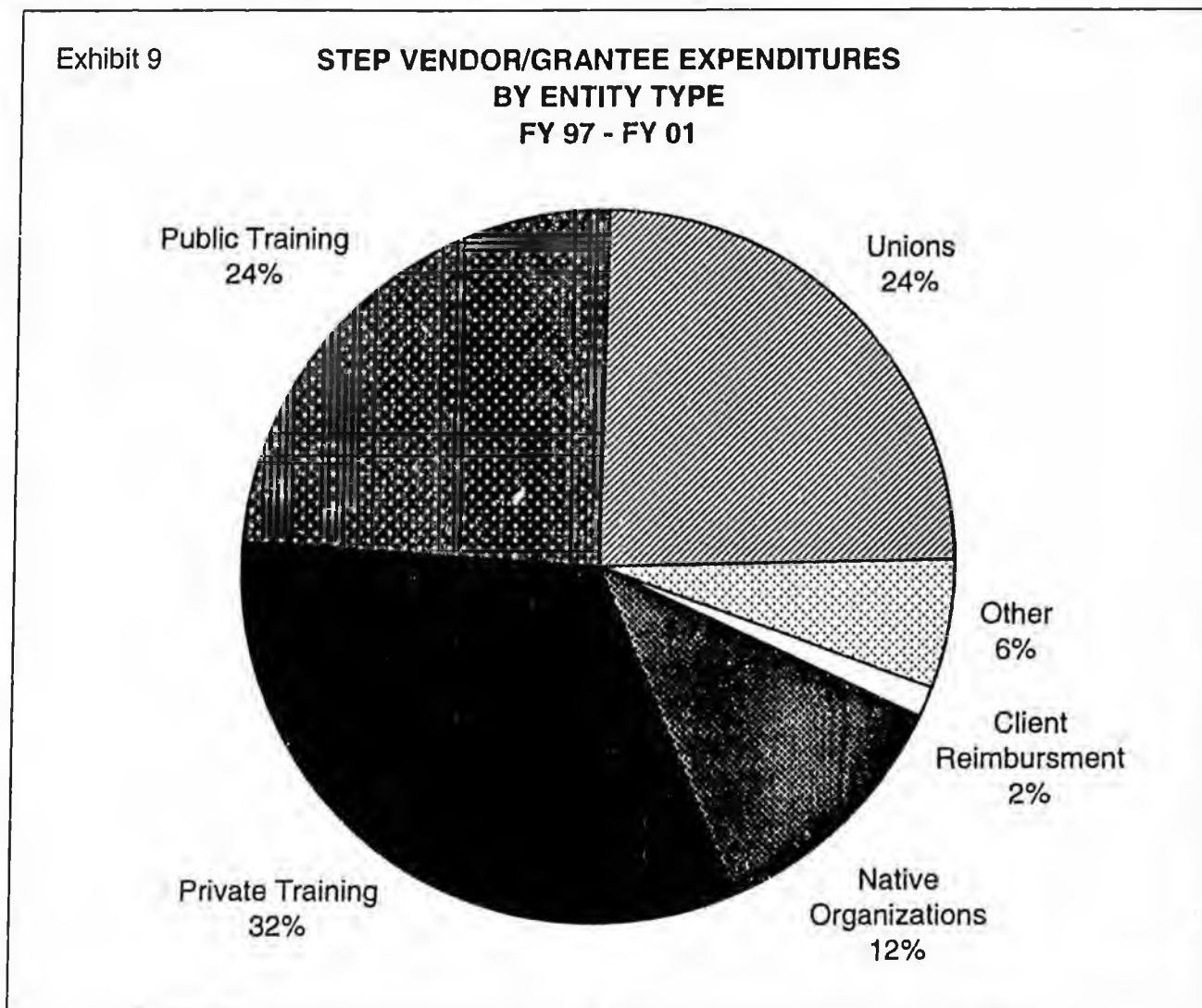
or classroom job-linked training. Prior to FY01 a STEP participant could receive support services without participating in one of the training elements. Vendors receiving payment for support services are local clothing and hardware retailers, hotels, travel agencies, and health-care providers. Reimbursement was also made to training entities for any support services they may have provided in conjunction with training programs. Support services represent 21 % of STEP vendor/grantee costs.



Types of vendors/grantees that received STEP funding

For our period of review, we were able to identify six distinct vendor/grantee groups: private training institutions, unions, public training institutions, Native organizations, client reimbursements and other. In most cases, participants were allowed to choose the vendor/grantee to provide the training services for their occupational education requirements. The percentage of costs by type of entity is based on the combined expenditures for the FY 97 – FY 01 STEP authorizations, for all vendor/grantees. It should be noted that any expenditures incurred directly by SDA administrative agencies or by the State’s AWIO office are not included in this vendor/grantee analysis. Appendices B through E provide detailed

reports containing vendor and grantee names, number of clients served, program elements provided and amount of disbursements to each vendor/grantee. Exhibit 9 summarizes the STEP vendor/grantee expenditures by entity type.



Private training institutions – are privately owned business offering professional training services as a part of their business activities. This is the largest vendor/grantee group incurring approximately 32% of STEP vendor/grantee expenditures. MILA, Inc. of Anchorage was the largest private training recipient of STEP funding. MILA provides administration and computer training and employment assistance services.

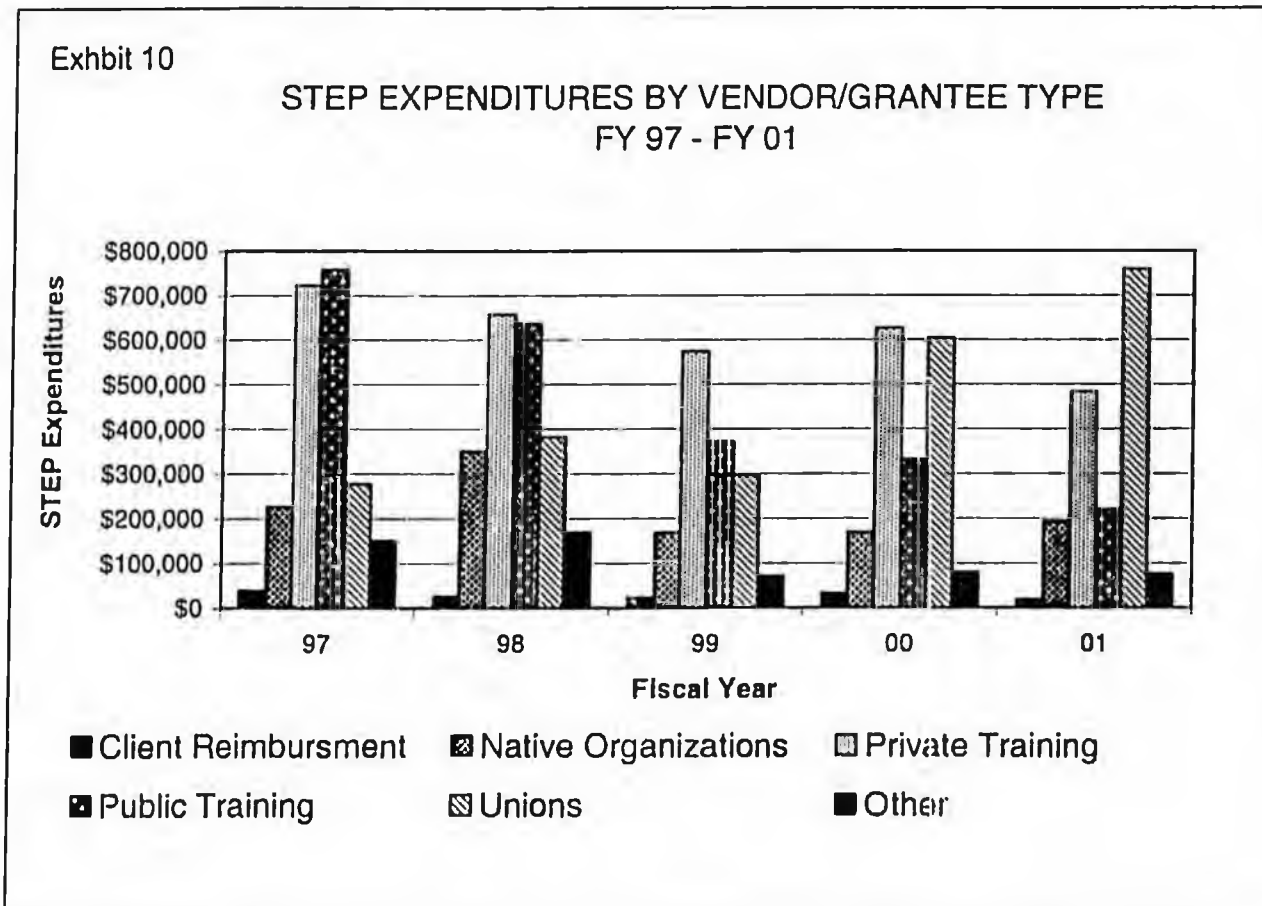
Public training institutions – incurred 24% of STEP vendor/grantee expenditures. Exhibit 10 (page 27) shows that public training institutions share of vendor/grantee expenditures has been steadily decreasing. The University of Alaska is the largest recipient of STEP funding in the public training institution category. As demonstrated in Exhibit 10, STEP expenditures by public training institutions have steadily decreased during FY 97 through FY 01.

Unions – incurred 24% of STEP vendor/grantee expenditures. Exhibit 10 shows a steady increase in STEP participants in union training programs. Alaska Laborers Training Trust Fund received the largest share of funds within the union vendor/grantees group. Alaska Laborers provides industry-specific training and assists participants’ entry into union apprenticeship programs. As noted in Exhibit 10, STEP expenditures by unions have steadily increased from FY 97 through FY 01.

Native organizations – are the fourth largest group incurring 12% of STEP vendor/grantee expenditures. This category consists of Native owned and operated organizations which include subsidiaries of the Native corporations; non-profit health services providers and local tribal groups.

Other – represents retailers and private employers. The group incurred 6% of STEP vendor/grantee expenditures. Retailers provided tools, work gear, travel and lodging to STEP participants. Private employers are enterprises whose employees required additional job training. Participants were able to improve their job skills to keep up with the demands of new technology and emerging industries.

Client reimbursements – are payments provided to individuals who bore the initial cost of STEP training and support services from personal resources, and were then reimbursed by the program.



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FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The program coordinator for the Alaska Workforce Investment Office should take steps to ensure that Alaska residents and employers are aware of the services available through STEP.

AS 23.15.635 gives many Alaskans the right to receive training assistance through STEP. However, there is a large gap between the number of people eligible for STEP services and number of people aware of the program. This gap has been created by the inclusive nature of STEP eligibility requirements and DLWD's lack of outreach about the program. In our view, there are ample opportunities to expand the STEP client base by simply informing people about the program.

Since STEP was created, it has mainly served the unemployed. However, there are no procedures in place to ensure all unemployed individuals are informed of the availability of STEP services. STEP assistance to dislocated workers mainly focused on large employers. There are no procedures in place to inform small and medium sized employers of the availability of the program.

Very few individuals are aware that a portion of their UI contribution goes to help fund STEP. Consequently, people don't know that STEP will pay for training if they expect to be laid off within six months. Additionally, the program is failing to successfully reach residents not eligible for UI benefits because of limited job opportunities or seasonal, temporary, part-time, or marginal employment. Further, the program is not reaching the "underemployed" who need employment assistance and training to obtain full employment.

DLWD is developing a division-wide marketing plan to increase consumer awareness of the services it provides through its employment services, unemployment insurance, job training and STEP programs. We recommend that the AWIO's program coordinator and AHRIC's executive director continue their efforts, taking steps to ensure that outreach and education efforts are adequate to inform and educate all eligible Alaskan residents and employers of the availability of STEP services.

Recommendation No. 2

AWIO's program coordinator should improve monitoring of its STEP grantees.

Our review found several areas of noncompliance by STEP grantees that could have been detected through monitoring procedures. Areas of noncompliance include Alaska Commission on Post Secondary Education (ACPE) certification, unallowable costs, use of STEP funds before utilization of federal funds, and dual enrollment of STEP clients.

AS 23.15.580(d)(2) states that training programs funded by STEP must be operated by an institution that holds a valid authorization to operate issued under AS 14.48 by ACPE, if the program is a postsecondary education program operated by a postsecondary education

institution subject to regulation under AS 147.48. According to ACPE, it is illegal to operate a postsecondary educational institution, advertise, or deliver postsecondary education, or recruit postsecondary students without either authorization or exemption from ACPE. When reviewing BOS grantees, we found five grantees in FY 00 and three grantees in FY 01 did not have the required ACPE certification.

In order to be an allowable non-administrative cost under STEP it must be for one of six program elements. We found that inappropriate allocation methods were used by MOA when charging costs to STEP for its Human Resource Corporation grantee. MOA charged costs to STEP based on budgetary estimates rather than actual costs incurred by its grantee. Our preliminary review found that STEP was overcharged by approximately \$25,000 in FY 01 and WIA was undercharged by the same amount. Initial review of FY 00 grant expenditure support indicates that STEP was also overcharged in FY 00.

Our review also found that STEP was used to pay \$50 placement incentive fees for seven of the seventy clients tested (ten percent) in the MOA SDA. These incentives were paid to clients when they entered into unsubsidized employment and again once they had been employed for 90 days. According to MOA staff, the fees were considered an allowable expense because they were allowable under the JTPA program. In our view, these expenses fail to fall into any of the six STEP program elements and are unallowable under STEP.

AS 23.15.651 (2)(b) mandates that STEP funding not displace money available through federal, public or private training programs. As discussed under Recommendation No. 7, MOA and BOS were not consistently seeking federal funding prior to enrolling clients in STEP. This practice violates statute and could result in the state not fully utilizing federal funds.

We also found that it had been standard practice in Juneau's BOS office to dual-enroll clients into both JTPA and STEP. If JTPA funding became unavailable during the year, dual-enrollment made the process of using STEP funding much quicker and easier. Consequently, we found that four of the ten (or 40 percent) FY 00 STEP clients we tested had no charges to STEP yet were included in the STEP database. Because these individuals were enrolled in STEP according to the database, they would have been included in the annual evaluation of STEP. The practice of dual-enrolling clients was stopped in FY 01 and was limited to the Juneau office.

The AWIO has a policy to annually conduct both financial and program monitoring reviews of its SDAs. However, due to a lack of resources in FY 00 and FY 01, only the programmatic review was conducted. All of the areas of non-compliance noted above could have been detected through on-site monitoring of SDAs. We recommend AWIO's program coordinator improve monitoring of its STEP grantees.

Recommendation No. 3

DLWD's commissioner should pursue legislation so that unexpended, unobligated STEP funds lapse into the UI trust fund.

From FY 91 through FY 98, unexpended, unobligated STEP funds were routinely transferred to the UI trust fund. Exhibit 4 on page 10 summarizes the amounts transferred back to the UI trust fund. Beginning in FY 99, unexpended, unobligated funds remain in the STEP account and are included in the next STEP authorization.

Because DLWD can not demonstrate conclusively that savings to the UI trust fund cover the cost of program, we believe that any unexpended, unobligated STEP funds should be transferred to the UI trust fund. Transferring the excess funds back to the UI trust fund would help mitigate the impact of diverting employee UI contributions from the UI trust fund. As discussed under the Report Conclusions section of the report, if diversions of employee contributions are not replaced by savings to the UI trust fund, employer UI tax rates increase.

It would be prudent to minimize the cost of STEP to employers by making the transfer requirement part of STEP statutes. We recommend DLWD's commissioner pursue legislation that requires the unexpended, unobligated STEP authorization lapse into the UI trust fund.

Recommendation No. 4

We recommend DLWD's director of administrative services, director of employment security and AWIO's program coordinator actively monitor STEP expenditures to ensure administrative costs do not exceed 15 percent of total STEP expenditures.

Currently, statutes provide two separate methods of calculating allowable STEP administrative expenditures. The first, AS 23.15.645(e), became effective in FY 97. It defined maximum administrative costs as 20 percent of STEP proceeds (revenue). The second, AS 23.15.580(b)(8), became effective in FY 99. It defined maximum administrative expenses as 15 percent of STEP expenditures. See page 17.

When AS 23.15.645 (e) became effective in FY 97, DLWD began multiplying its STEP authorization by 20 percent when developing its budget for STEP administrative costs to ensure the department complied with the statute. Our review found that DLWD's administrative expenditures were 14 percent of STEP proceeds in FY 97 and 13 percent in FY 98, well within the 20 percent maximum defined in statute.

However, when AS 23.15.580(b)(8) became effective in FY 99, DLWD simply reduced the percentage applied to their STEP authorization from 20 percent to 15 percent. It failed to recognize that compliance required administrative costs be 15 percent of STEP expenditures rather than STEP proceeds. Administrative costs were 24 percent of STEP expenditures in FY 99, 23 percent in FY 00 and 21 percent in FY 01. These percentages far exceed the 15 percent statutory maximum.

We recommend that DLWD's director of administrative services, director of employment security and AWIO's program coordinator actively monitor STEP expenditures to ensure administrative costs do not exceed 15 percent of total STEP expenditures.

Recommendation No. 5

We recommend the director of administrative services improve procedures so that UI accounting costs are charged to STEP and ATVE in an equitable and supported manner.

Part of the cost of administering the STEP program is the cost of collecting and distributing a portion of employee tax contributions. Based on a federal review of DLWD's UI accounting section in 1994, 19 percent of the cost of collecting and distributing employee tax contributions was allocated to STEP. When ATVE became effective in FY 01, the fiscal note specified that the 19 percent (estimated at \$300,000) of UI accounting costs be split equally between the STEP and ATVE programs. It also stated that the ATVE costs were to be allocated to the University of Alaska (UofA), AVTEC, and Kotzebue in the amounts of \$78,000, \$48,000 and \$24,000, respectively. In FY 01, 19 percent of UI accounting costs totaled \$220,000. Exhibit 11 summarizes how UI accounting costs were charged to the entities in FY 01.

Exhibit 11

| | Percent to be charged per fiscal note | Actual Expenditures charged entities | \$220,000 allocated by proper % | Difference <overcharge> undercharge |
|-------------------------|---------------------------------------|--------------------------------------|---------------------------------|-------------------------------------|
| STEP Program | 50% | \$98,000 | \$110,000 | \$12,000 |
| UofA – ATVE Program | 26% | 78,000 | 57,000 | <21,000> |
| Kotzebue – ATVE Program | 8% | 24,000 | 18,000 | <6,000> |
| AVTEC – ATVE Program | 16% | 48,000 | 35,000 | <13,000> |
| Total | | \$248,000 | \$220,000 | <\$28,000> |

DLWD did have a procedure in place to ensure that expenditures were allocated to the entities in accordance with the fiscal note. However, when reviewing expenditures we detected that DLWD staff did not follow their procedures. Consequently, UI costs were not equitably allocated to STEP and ATVE. Further, we found that STEP was undercharged by \$12,000 and ATVE was overcharged by \$40,000.

We recommend that director of administrative services improve procedures so that UI accounting costs are charged to STEP and ATVE in an equitable and supported manner.

Recommendation No. 6

AWIO's program coordinator should take steps to ensure STEP program data is collected and reported in a manner that demonstrates compliance with statutes.

Our ability to evaluate whether the STEP program was being administered in compliance with statutes and regulations was hindered by a lack of comparable, readily available program data. Problems with the STEP database and inconsistent reporting requirements contributed to a general lack of comparable information.

As discussed in the Background Information section of this report, the method of delivering STEP services mirrored the procedures already in place for JTPA. The database that was in place to collect and report JTPA data was utilized for STEP data collection. By the late 1990s, the database needed to be replaced. A new system was purchased in FY 99 but never became operational. Another new data system was purchased in FY 00 to be used for the new WIA program and STEP. Implementation was delayed awaiting the federal WIA reporting guidelines. Reporting guidelines were not released until March 2001.

During the same period, AWIO waived the requirement that SDA administrative agencies report STEP financial information by program element. No vendor/grantee detail financial reports were required for FY 00 and FY 01.⁷ Previously, SDA administrative agencies had been required to report STEP expenditure information quarterly, including expenditures by account and program element including detail vendor/grantee information. We reviewed the FY 97 through FY 99 reports and found that SDAs were not reporting expenditures in a consistent format. Some SDAs reported tools, safety gear and other necessities separately while others grouped the costs with other types of support services. Further, we found that some SDAs categorized tools and safety gear as industry-specific training on financial reports rather than reporting the costs separately.

Without program data, AWIO's ability to monitor the STEP program is severely limited. Waiving the reporting requirement, without introducing compensating internal controls, increases the risk that STEP funds are being used inappropriately. Further, inconsistent reporting formats limit the usefulness of the financial reports.

We recommend AWIO's program coordinator take steps to ensure STEP program data is collected and reported in a manner that demonstrates compliance with statutes. At a minimum, this includes ensuring that STEP reporting formats include the six program elements defined in statute.

⁷ During the course of the audit, AWIO was able to request and obtain the FY 00 and FY 01 detail financial reports from their SDA administrative agencies.

Recommendation No. 7

We recommend AWIO's program director and AHRIC's executive director work together to ensure STEP does not displace other federal, private, or public training funds.

As part of our review of client files, we found several indications that SDAs were not consistently requiring federal JTPA/WIA programs be pursued before STEP funds were authorized. AS 23.15.651 requires that STEP not replace or compete in any way with a federally approved, jointly administered apprenticeship program or any other existing training programs. It further states that AHRIC may not award a grant if the grant would displace money available through existing public or private training programs.

We tested 50 client files at MOA and found that in eleven of the 50 cases (22 percent), MOA employment coordinators used STEP funds when clients were potentially eligible for JTPA/WIA. In two instances, employment coordinators noticed that a client was receiving UI and automatically enrolled the client in STEP without considering eligibility for other programs. In one instance, an employment coordinator enrolled a client in STEP because it is quicker than going through WIA. One case was simple oversight. Seven of the eleven were automatically enrolled in STEP rather than WIA because MOA mistakenly believed industry-specific training was disallowed under WIA.

We tested twenty client files at the Human Resources Corporation, MOA's contractor that services the Mat-Su area, and found three clients (15 percent) should have been eligible for JTPA. HRC staff stated up until July 2000, they were unaware of the requirement to use other funding first. Our review of client files at BOS found no such errors.

We also found that both SDAs funded grants for industry-specific training with STEP even though WIA funding had not been exhausted. Both MOA and BOS carried forward federal WIA funding from FY 01 into FY 02 (MOA carried forward \$676,000 of adult and dislocated worker funding and BOS carried forward \$2 million in adult and dislocated worker funding). Using STEP funds before exhausting federal funds violates AS 23.15.651.

We recommend AWIO's program coordinator and AHRIC's executive director work together to ensure STEP does not displace other federal, private, or public training funds.

APPENDICES

Appendices A through E report expenditures for the state training and employment program (STEP) in a variety of ways. STEP expenditure information is presented to demonstrate the cost of administering the STEP program versus the cost of providing training. Additionally, detail vendor/grantee expenditure information is reported to help identify if favoritism is occurring. A description of each appendix is provided below.

Appendix A – Summary STEP expenditures

This schedule summarizes expenditures for the FYs 97 through 01 STEP appropriations. Costs are reported by the entity that incurred the expenditure. Expenditures are further classified into two cost categories, administration and program. Expenditures for each service delivery are split between those incurred directly by the SDA's administrative agency and those incurred by vendors or grantees. Appendices B through E provide additional detail for the vendor/grantee costs.

Appendix B – Summary vendor/grantee expenditures by entity type

This appendix includes five summary schedules, one for each of the FYs 97 through 01. Detail expenditures that support this schedule are found in Appendix C. Entity type indicators are discussed in detail on the following page.

Appendix C – Detail vendor/grantee expenditures by entity type

This appendix includes five detail expenditure schedules, one for each of the FYs 97 through 01. Expenditures are reported by STEP program element. A description of each of the program element indicators is found on the following page.

Appendix D – Detail vendor/grantee expenditures by service delivery area (SDA)

This appendix includes 13 detail expenditure schedules, one for each SDA, for each of the FYs 97 through 01. For FYs 97 through 99, the state was broken into three service areas for the purposes of delivering job training; Fairbanks area, Anchorage area, and the statewide area. Beginning in FY 00, SDAs were reorganized into two areas; Anchorage/Mat-Su area and Balance of State area.

Appendix E – Detail vendor/grantee expenditures by amount

This appendix includes five detail expenditure schedules, one for each of the FYs 97 through 01. Each schedule reports vendor/grantee expenditures by amount in descending order.

Entity Type Indicators

Private training institutions: Privately owned businesses offering professional training services as part of their business activities.

Unions: Organizations of wage earners formed for the purpose of serving the members' interests with respect to wages and working conditions. Many labor unions have training/apprenticeship programs.

Public training institutions: Mainly composed of state agencies and the University of Alaska.

Native organizations: Native owned and operated organizations which include subsidiaries of Native corporations; non-profit health services providers and local tribal groups.

Other: Includes retailers and private employers.

Client reimbursements: Payments provided to individuals who bore the initial cost of STEP training and support services from personal resources, and were then reimbursed by the program.

Program Element Cost Indicators

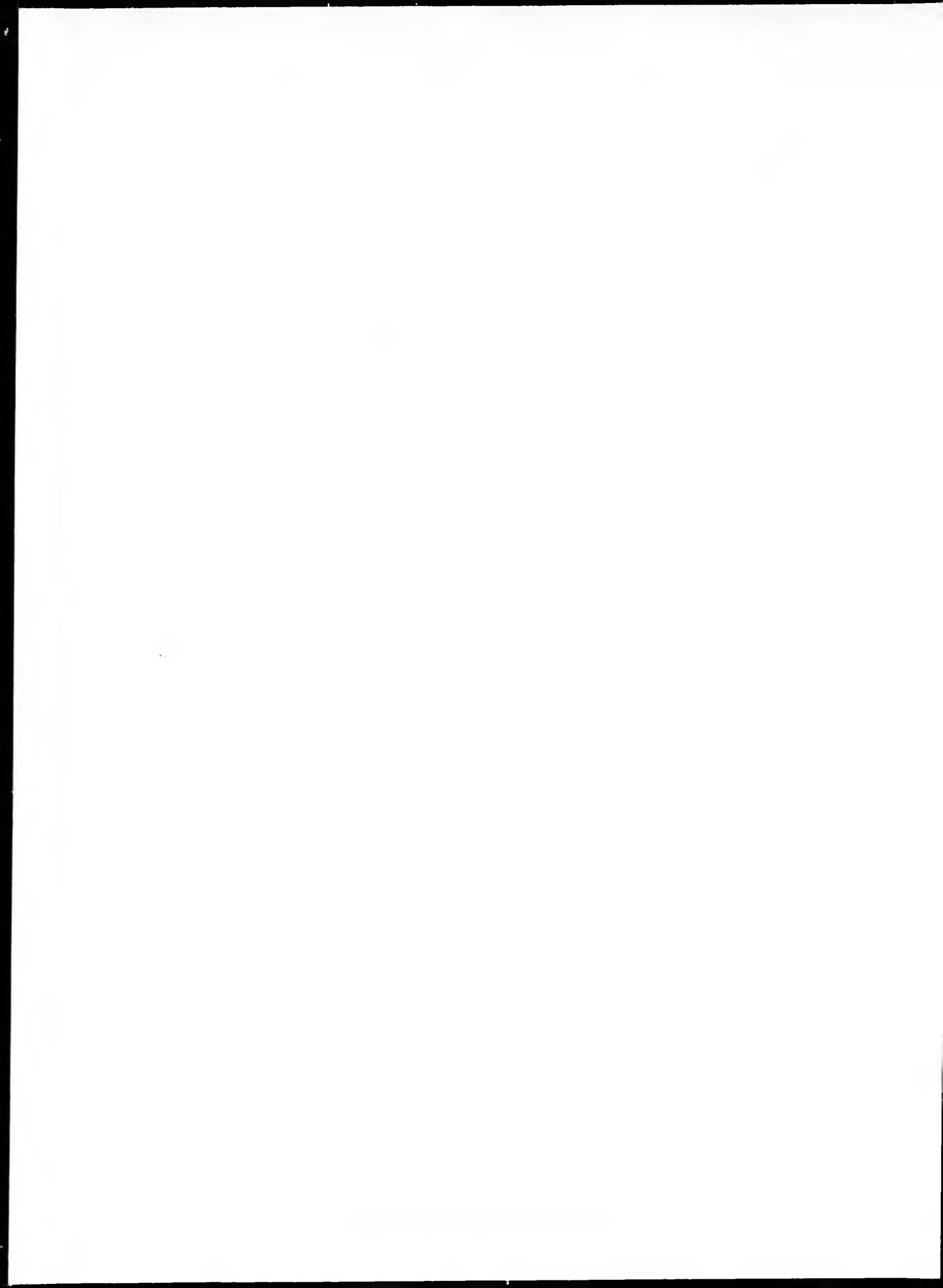
Employment Assistance: Worker assessment and counseling services, instruction in resume preparation, job search, work ethics, interviewing and other job readiness skills.

Industry-specific training: Training tailored to the needs of specific occupations, industries, employers or groups of employers.

On-the-job training: Provides reimbursement to employers or pays wages directly to a participant who is receiving on-the-job training.

Institutional or classroom job-linked training: Mostly offered by public or private training institutions and encompassed both occupational and general job skills.

Support services: Support services, relocation assistance, and the provision of tools, work-related clothing, safety gear, or other items necessary to obtain or retain employment.



APPENDIX A – SCHEDULE 1
 FY 97 STEP EXPENDITURES
 (Unaudited)

| <u>ENTITY TYPES</u> | <u>ADMINISTRATION</u> | <u>PROGRAM</u> | <u>TOTAL</u> |
|---|--------------------------|---------------------------|---------------------------|
| Service Delivery Direct Costs | | | |
| Statewide Direct Costs | \$ 139,171 | \$ 26,791 | \$ 165,962 |
| MOA Direct Costs | 110,502 | 208,571 | 319,073 |
| Fairbanks Direct Costs | 47,007 | 95,887 | 142,894 |
| Subtotal | <u>296,680</u> | <u>331,249</u> | <u>627,929</u> |
| Service Delivery Area Vendor Grantee Costs | | | |
| Statewide Vendors/Grants | 8,870 | 1,118,909 | 1,127,779 |
| MOA Vendors/Grants | 22,149 | 837,073 | 859,222 |
| Fairbanks Vendors/Grants | - | 188,803 | 188,803 |
| Subtotal | <u>31,019</u> | <u>2,144,785</u> | <u>2,175,804</u> |
| Other | | | |
| AHHC | 107,069 | | 107,069 |
| Research & Analysis | | 175,000 | 175,000 |
| Revenue Collection | 264,152 | | 264,152 |
| JTPO/AWIO | 94,398 | | 94,398 |
| Subtotal | <u>465,619</u> | <u>175,000</u> | <u>640,619</u> |
| TOTAL FY 97 | <u>\$ 793,318</u> | <u>\$2,651,034</u> | <u>\$3,444,352</u> |
| Percent of Total | 23% | 77% | |

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APPENDIX A – SCHEDULE 2
 FY 98 STEP EXPENDITURES
 (Unaudited)

| <u>ENTITY TYPES</u> | <u>ADMINISTRATION</u> | <u>PROGRAM</u> | <u>TOTAL</u> |
|--|--------------------------|---------------------------|---------------------------|
| Service Delivery Direct Costs | | | |
| Statewide Direct Costs | \$ 154,290 | \$ 17,179 | \$ 171,469 |
| MOA Direct Costs | 105,459 | 320,912 | 426,371 |
| Fairbanks Direct Costs | 42,379 | 75,349 | 117,728 |
| Subtotal | <u>302,128</u> | <u>413,440</u> | <u>715,568</u> |
| Service Delivery Area Vendor Grantee Costs | | | |
| Statewide Vendors/Grants | | 1,115,973 | 1,115,973 |
| MOA Vendors/Grants | 22,805 | 724,412 | 747,217 |
| Fairbanks Vendors/Grants | | 356,119 | 356,119 |
| Subtotal | <u>22,805</u> | <u>2,196,504</u> | <u>2,219,309</u> |
| Other | | | |
| AHRIC | 105,901 | | 105,901 |
| Research & Analysis | | 228,692 | 228,692 |
| Revenue Collection | 260,278 | | 260,278 |
| JTPO/AWIO | 77,496 | | 77,496 |
| Ketchikan Career Training Center | 8,445 | 48,443 | 56,888 |
| Subtotal | <u>452,120</u> | <u>277,135</u> | <u>729,255</u> |
| TOTAL FY 98 | <u>\$ 777,053</u> | <u>\$2,887,079</u> | <u>\$3,664,132</u> |
| Percent of Total | 21% | 79% | |

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APPENDIX A – SCHEDULE 3
 FY 99 STEP EXPENDITURES
 (Unaudited)

| <u>ENTITY TYPES</u> | <u>ADMINISTRATION</u> | <u>PROGRAM</u> | <u>TOTAL</u> |
|---|--------------------------|---------------------------|---------------------------|
| Service Delivery Direct Costs | | | |
| BOS - Statewide Direct Costs | \$ 126,634 | \$ 239,096 | \$ 365,730 |
| MOA Direct Costs | 159,220 | 317,425 | 476,645 |
| Fairbanks Direct Costs | 12,863 | 20,153 | 33,016 |
| BOS - Fairbanks Direct Costs | 25,684 | 131,304 | 156,988 |
| Subtotal | <u>324,401</u> | <u>707,978</u> | <u>1,032,379</u> |
| Service Delivery Area Vendor Grantee Costs | | | |
| BOS - Statewide Vendors/Grants | | 810,111 | 810,111 |
| MOA Vendors/Grants | | 603,045 | 603,045 |
| Fairbanks Vendors/Grants | | 54,583 | 54,583 |
| BOS - Fairbanks Vendors/Grants | | 37,876 | 37,876 |
| Subtotal | | <u>1,505,615</u> | <u>1,505,615</u> |
| Other | | | |
| AHRIC | 106,659 | | 106,659 |
| Research & Analysis | | 283,798 | 283,798 |
| Revenue Collection | 294,666 | | 294,666 |
| JTPO/AWIO | 85,872 | | 85,872 |
| Ketchikan Career Training Center | 10,192 | 46,052 | 56,244 |
| Subtotal | <u>497,389</u> | <u>329,850</u> | <u>827,239</u> |
| TOTAL FY 99 | <u>\$ 821,790</u> | <u>\$2,543,443</u> | <u>\$3,365,233</u> |
| Percent of Total | 24% | 76% | |

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APPENDIX A – SCHEDULE 4
 FY 00 STEP EXPENDITURES
 (Unaudited)

| <u>ENTITY TYPES</u> | <u>ADMINISTRATION</u> | <u>PROGRAM</u> | <u>TOTAL</u> |
|--|--------------------------|---------------------------|---------------------------|
| Service Delivery Direct Costs | | | |
| BOS - Statewide Direct Costs | \$ 191,454 | \$ 267,255 | \$ 458,709 |
| MOA Direct Costs | 126,724 | 152,973 | 279,697 |
| Subtotal | <u>318,178</u> | <u>420,228</u> | <u>738,406</u> |
| Service Delivery Area Vendor Grantee Costs | | | |
| BOS - Statewide Vendors/Grants | | 1,241,477 | 1,241,477 |
| MOA Vendors/Grants | 14,838 | 587,108 | 601,946 |
| Subtotal | <u>14,838</u> | <u>1,828,585</u> | <u>1,843,423</u> |
| Other | | | |
| AHRIC | 106,794 | | 106,794 |
| Research & Analysis | | 314,807 | 314,807 |
| Revenue Collection | 249,901 | | 249,901 |
| Fish Disaster Special Grant | 6,318 | 43,682 | 50,000 |
| JTPO/AWIO | 69,524 | | 69,524 |
| Subtotal | <u>432,537</u> | <u>358,489</u> | <u>791,026</u> |
| TOTAL FY 00 | <u>\$ 765,553</u> | <u>\$2,607,302</u> | <u>\$3,372,855</u> |
| Percent of Total | 23% | 77% | |

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APPENDIX A -- SCHEDULE 5
 FY 01 STEP EXPENDITURES
 (Unaudited)

| <u>ENTITY TYPES</u> | <u>ADMINISTRATION</u> | <u>PROGRAM</u> | <u>TOTAL</u> |
|--|--------------------------|---------------------------|---------------------------|
| Service Delivery Direct Costs | | | |
| BOS - Statewide Direct Costs | \$ 263,051 | \$ 441,712 | \$ 704,763 |
| MOA Direct Costs | 150,981 | 230,158 | 381,139 |
| Subtotal | <u>414,032</u> | <u>671,870</u> | <u>1,085,902</u> |
| Service Delivery Area Vendor Grantee Costs | | | |
| BOS - Statewide Vendors/Grants | | 1,135,131 | 1,135,131 |
| MOA Vendors/Grants | 13,544 | 598,264 | 611,808 |
| Subtotal | <u>13,544</u> | <u>1,733,395</u> | <u>1,746,939</u> |
| Other | | | |
| AHRIC | 68,275 | | 68,275 |
| Research & Analysis | | 325,947 | 325,947 |
| Revenue Collection | 97,831 | | 97,831 |
| JTPO/AWIO | 132,229 | | 132,229 |
| Subtotal | <u>298,335</u> | <u>325,947</u> | <u>624,282</u> |
| TOTAL FY 01 | <u>\$ 725,911</u> | <u>\$2,731,212</u> | <u>\$3,457,123</u> |
| Percent of Total | 21% | 79% | |

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APPENDIX B - SCHEDULE 1
 FY 97 STEP Vendor/Grantee
 Summary Report by Type
 (Unaudited)

| <u>Vendor/Grantee Type</u> | <u>Clients Served</u> | <u>Total Grants</u> |
|-------------------------------|-----------------------|----------------------------|
| Private Training Institutions | 698 | \$ 722,802 |
| Unions | 269 | 276,967 |
| Public Training Institutions | 445 | 758,505 |
| Native Organizations | 137 | 226,974 |
| Other | 213 | 150,543 |
| Client Reimbursements | 68 | 40,013 |
| Total | <u>1,830</u> | <u>\$ 2,175,804</u> |

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APPENDIX B - SCHEDULE 2
 FY 98 STEP Vendor/Grantee
 Summary Report by Type
 (Unaudited)

| <u>Vendor/Grantee Type</u> | <u>Clients Served</u> | <u>Total Grants</u> |
|-------------------------------|-----------------------|----------------------------|
| Private Training Institutions | 651 | \$ 656,667 |
| Unions | 265 | 381,151 |
| Public Training Institutions | 312 | 636,409 |
| Native Organizations | 129 | 350,291 |
| Other | 185 | 168,114 |
| Client Reimbursements | 55 | 26,677 |
| Total | <u>1,597</u> | <u>\$ 2,219,309</u> |

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APPENDIX B - SCHEDULE 3
 FY 99 STEP Vendor/Grantee
 Summary Report by Type
 (Unaudited)

| <u>Vendor/Grantee Type</u> | <u>Clients Served</u> | <u>Total Grants</u> |
|-------------------------------|-----------------------|----------------------------|
| Private Training Institutions | 409 | \$ 574,271 |
| Unions | 286 | 297,329 |
| Public Training Institutions | 297 | 371,228 |
| Native Organizations | 210 | 167,869 |
| Other | 154 | 71,335 |
| Client Reimbursement | 26 | 23,583 |
| Total | <u>1,382</u> | <u>\$ 1,505,615</u> |

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APPENDIX B - SCHEDULE 4
 FY 00 STEP Vendor/Grantee
 Summary Report by Type
 (Unaudited)

| <u>Vendor/Grantee Type</u> | <u>Clients Served</u> | <u>Total Grants</u> |
|-------------------------------|-----------------------|----------------------------|
| Private Training Institutions | 304 | \$ 625,683 |
| Unions | 377 | 603,938 |
| Public Training Institutions | 236 | 331,369 |
| Native Organizations | 130 | 169,157 |
| Other | 86 | 79,937 |
| Client Reimbursements | 33 | 33,339 |
| Total | <u>1,166</u> | <u>\$ 1,843,423</u> |

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APPENDIX B - SCHEDULE 5
 FY 01 STEP Vendor/Grantee
 Summary Report by Type
 (Unaudited)

| <u>Vendor/Grantee Type</u> | <u>Clients Served</u> | <u>Total Grants</u> |
|-------------------------------|-----------------------|----------------------------|
| Private Training Institutions | 272 | \$ 482,738 |
| Unions | 716 | 758,684 |
| Public Training Institutions | 121 | 218,989 |
| Native Organizations | 115 | 192,266 |
| Other | 88 | 75,429 |
| Client Reimbursements | 48 | 18,833 |
| Total | <u>1,360</u> | <u>\$ 1,746,939</u> |

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APPENDIX C - SCHEDULE 1
 FY 97 STEP Vendor/Grantee
 Detail Report by Type
 (Unaudited)

| Vendor/Grantee Name | Type | Clients Served | Industry Specific | Classroom Training | OJT | Employment Assistance | Support Services | Total Grants |
|--|------------------|----------------|-------------------|--------------------|------|-----------------------|------------------|--------------|
| Adult Learning Programs Of Alaska | Private Training | 6 | \$ - | \$ 451 | \$ - | \$ - | \$ - | \$ 451 |
| Airman Flight School | Private Training | 1 | 2,870 | - | - | - | - | 2,870 |
| Alaska Air Academy | Private Training | 1 | - | 258 | - | - | - | 258 |
| Alaska Center For Children & Adults | Private Training | 1 | - | 185 | - | - | - | 185 |
| Alaska Computer Institute | Private Training | 6 | - | 18,230 | - | - | - | 18,230 |
| Alaska Technical Training | Private Training | 4 | - | 19,612 | - | - | - | 19,612 |
| American Traffic Safety | Private Training | 1 | 75 | - | - | - | - | 75 |
| American Welding | Private Training | 1 | 1,330 | - | - | - | - | 1,330 |
| Asbeslos Removal Specialists Of Alaska | Private Training | 1 | 600 | - | - | - | - | 600 |
| Brigham Young | Private Training | 1 | - | 832 | - | - | - | 832 |
| CAE, Inc. | Private Training | 1 | - | 3,780 | - | - | - | 3,780 |
| Career Academy | Private Training | 11 | - | 32,636 | - | - | - | 32,636 |
| Career Comm | Private Training | 12 | - | - | - | - | 159 | 159 |
| Charter College | Private Training | 39 | - | 37,366 | - | - | - | 37,366 |
| Commercial Training | Private Training | 1 | - | 2,595 | - | - | - | 2,595 |
| Computer Express | Private Training | 10 | - | - | - | 2,246 | - | 2,246 |
| Computerland | Private Training | 1 | - | 31 | - | - | - | 31 |
| Data Bank Computer | Private Training | 1 | 144 | 288 | - | - | - | 432 |
| Elite Employment Services | Private Training | 10 | - | 15,121 | - | - | - | 15,121 |
| Embry Riddle Aeronautical | Private Training | 1 | - | 2,479 | - | - | - | 2,479 |
| Environmental Management, Inc. | Private Training | 52 | - | 27,730 | - | - | - | 27,730 |
| Fairnet, Inc. | Private Training | 38 | - | 17,339 | - | - | - | 17,339 |
| Floral Design Institute | Private Training | 1 | - | 225 | - | - | - | 225 |
| HDS, Inc. | Private Training | 1 | - | 3,000 | - | - | - | 3,000 |
| HMC, Inc. | Private Training | 1 | 720 | - | - | - | - | 720 |
| Hospice & Homecare | Private Training | 16 | 9,460 | - | - | - | 464 | 9,924 |
| Human Resources Center, Inc. | Private Training | 157 | - | - | - | 114,142 | - | 114,142 |
| ITT Technical Institute | Private Training | 1 | - | 2,981 | - | - | - | 2,981 |
| Linn-Benton Community College | Private Training | 1 | - | 1,545 | - | - | - | 1,545 |
| Literacy Council Of Alaska | Private Training | 30 | - | 14,718 | - | - | - | 14,718 |
| Metro Oasis Salon And School | Private Training | 1 | - | 5,295 | - | - | - | 5,295 |
| MILA, Inc. | Private Training | 185 | - | 129,119 | - | 65,621 | - | 194,740 |
| Network Business Systems | Private Training | 5 | - | 5,459 | - | - | - | 5,459 |
| New World Teachers | Private Training | 1 | - | 2,000 | - | - | - | 2,000 |

APPENDIX C - SCHEDULE 1
 FY 97 STEP Vendor/Grantee
 Detail Report by Type
 (Unaudited)

| Vendor/Grantee Name | Type | Clients Served | Industry Specific | Classroom Training | OJT | Employment Assistance | Support Services | Total Grants |
|---|------------------|----------------|-------------------|--------------------|--------------|-----------------------|------------------|----------------|
| OPAG, Inc. | Private Training | 45 | \$ 6,506 | \$ 38,045 | \$ - | \$ - | \$ 4,833 | \$ 49,384 |
| People Count | Private Training | 25 | - | 42,679 | - | - | - | 42,679 |
| Pima Community College | Private Training | 1 | - | 5,800 | - | - | - | 5,800 |
| Red Cross Of America | Private Training | 3 | - | 90 | - | - | - | 90 |
| Revere Academy Of Jewelry Arts | Private Training | 1 | 1,638 | - | - | - | - | 1,638 |
| Rolf Institute | Private Training | 1 | - | 4,900 | - | - | - | 4,900 |
| Safely Quality Environment | Private Training | 1 | - | 450 | - | - | - | 450 |
| School Of Integrated Shiatsu | Private Training | 1 | 6,001 | - | - | - | - | 6,001 |
| Southern Methodist University | Private Training | 1 | - | 7,500 | - | - | - | 7,500 |
| SST Travel Schools | Private Training | 1 | 3,845 | - | - | - | - | 3,845 |
| Testing Institute Of Alaska | Private Training | 2 | 1,901 | 5,500 | - | - | - | 7,401 |
| Travel School | Private Training | 1 | - | 2,850 | - | - | - | 2,850 |
| Trophy Tan & Taxidermy | Private Training | 1 | - | - | 3,838 | - | - | 3,838 |
| University Of Washington | Private Training | 1 | - | 681 | - | - | - | 681 |
| Valley Academy Of Nursing | Private Training | 3 | - | 6,000 | - | - | - | 6,000 |
| Wayland University | Private Training | 2 | - | 3,248 | - | - | - | 3,248 |
| West Coast Training, Inc. | Private Training | 2 | - | 8,830 | - | - | - | 8,830 |
| Yukon Delta Fisheries Development Association | Private Training | 6 | 26,561 | - | - | - | - | 26,561 |
| Total Private Training Institutions | | 698 | 61,651 | 469,848 | 3,838 | 182,009 | 5,456 | 722,802 |
| Alaska Joint Electrical Apprenticeship | Union | 74 | 6,101 | - | - | - | 71,623 | 77,724 |
| Alaska Laborers Training Trust Fund | Union | 111 | 95,752 | - | - | - | 11,577 | 107,329 |
| Alaska Operating Engineers | Union | 9 | - | - | - | - | 1,695 | 1,695 |
| Alaska Roofers Joint Apprenticeship | Union | 21 | 45,910 | - | - | - | 812 | 46,722 |
| Carpenters | Union | 21 | 17,672 | - | - | - | - | 17,672 |
| Center For Employment Education | Union | 5 | - | 8,237 | - | - | - | 8,237 |
| International Longshore And Warehouse Union | Union | 28 | 12,277 | - | - | - | 5,311 | 17,588 |
| Total Unions | | 269 | 177,712 | 8,237 | - | - | 91,018 | 276,967 |
| Alaska Vocational Technical Education Center | Public Training | 22 | 41,621 | 27,257 | - | - | 27,974 | 96,852 |

APPENDIX C - SCHEDULE 1
 FY 97 STEP Vendor/Grantee
 Detail Report by Type
 (Unaudited)

| Vendor/Grantee Name | Type | Clients Served | Industry Specific | Classroom Training | OJT | Employment Assistance | Support Services | Total Grants |
|---|-----------------|----------------|-------------------|--------------------|--------------|-----------------------|------------------|----------------|
| City Of Wrangell | Public Training | 2 | \$ - | \$ - | \$ - | \$ 721 | \$ 1,600 | \$ 2,321 |
| Copper Valley Education | Public Training | 27 | 20,454 | - | - | - | 63,440 | 83,894 |
| Dept. of Labor & Workforce Development | Public Training | 29 | 4,551 | 89,000 | - | - | 308 | 93,859 |
| New Frontier Vocational Technical Center | Public Training | 1 | - | 1,975 | - | - | - | 1,975 |
| Norton Sound Education | Public Training | 20 | 20,180 | - | - | - | 14,076 | 34,256 |
| Rural Assessment - Case Management | Public Training | 162 | - | - | - | 90,125 | - | 90,125 |
| Step Power Plant Rsa | Public Training | 30 | 565 | 26,540 | - | - | 27,126 | 54,231 |
| University Of Alaska | Public Training | 13 | - | 12,355 | - | - | 4,050 | 16,405 |
| University Of Alaska - Anchorage | Public Training | 75 | - | 66,756 | - | 70,388 | - | 137,144 |
| University Of Alaska - Anchorage/Matsu | Public Training | 29 | - | 21,216 | - | - | - | 21,216 |
| University Of Alaska - Chukchi | Public Training | 1 | - | 159 | - | - | - | 159 |
| University Of Alaska - Fairbanks | Public Training | 22 | - | 63,012 | - | - | 14,307 | 77,319 |
| University Of Alaska - Kenai | Public Training | 1 | - | 1,129 | - | - | - | 1,129 |
| University Of Alaska - Kuskokwim | Public Training | 1 | - | 13,831 | - | - | - | 13,831 |
| University Of Alaska Law Rsa | Public Training | 10 | 33,789 | - | - | - | - | 33,789 |
| Total Public Training Institution | | 445 | 121,160 | 323,230 | - | 161,234 | 152,881 | 758,505 |
| Association Of Village Council Presidents | Native Entity | 40 | 2,900 | - | - | - | 19,569 | 22,469 |
| BBC Human Resource | Native Entity | 30 | 10,268 | - | - | 93,416 | - | 103,684 |
| Bristol Bay Native Association | Native Entity | 10 | 22,105 | - | - | - | 4,995 | 27,100 |
| Fairbanks Native Association | Native Entity | 1 | - | - | 1,666 | - | - | 1,666 |
| Gana A Yoo Ltd | Native Entity | 4 | - | 5,389 | - | - | 949 | 6,338 |
| Ilisagvik College | Native Entity | 2 | - | - | - | - | 2,425 | 2,425 |
| Ilisquik College | Native Entity | 1 | - | - | - | - | 2,531 | 2,531 |
| Kake Tribal Corp. | Native Entity | 30 | - | - | - | 3,125 | - | 3,125 |
| Maniilaq Association | Native Entity | 1 | - | - | - | - | 280 | 280 |
| Naabia Niign, Ltd. | Native Entity | 2 | - | - | 1,691 | - | - | 1,691 |
| Nulato Tribal Council | Native Entity | 2 | - | - | - | - | 300 | 300 |
| Southeast Regional Resource Center, Inc. | Native Entity | 2 | - | 7,100 | - | - | - | 7,100 |
| Yukon-Kuskokwim Health Corporation | Native Entity | 12 | 28,336 | - | - | - | 19,929 | 48,265 |
| Total Native Organizations | | 137 | 63,609 | 12,489 | 3,357 | 96,541 | 50,978 | 226,974 |
| Action Auto Parts & Glass | Other | 3 | - | - | - | - | 625 | 625 |
| Action See | Other | 1 | - | - | 1,740 | - | - | 1,740 |
| Air Liquide America Corp. | Other | 1 | 212 | - | - | - | - | 212 |