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OFFICE OF THE STATE AUDITOR

To: Bill Botzow, Chair, House Committee on Commerce & Economic Development

Kevin Mullin, Chair, Senate Committee on Economic Development, Housing & General Affairs

Re: Vermont Training Program – Compliance and Performance

Date: 15 September 2015

Cc: Mitzi Johnson, Chair, House Committee on Appropriations

Jane Kitchel, Chair, Senate Committee on Appropriations

Janet Ancel, Chair, House Committee on Ways & Means

Tim Ashe, Chair, Senate Committee on Finance

Workforce education and training are vital to the economy. Strategic investments in human capital increase productivity, which should result in higher wages and profits.[1] The State of Vermont has supported workforce education and training for many years using taxpayer funds to help businesses and employees meet their training needs. The largest such state-funded effort is the Vermont Training Program (VTP).

The VTP provides direct grants to eligible businesses to cover either 50 percent of wages for each employee while engaged in on-the-job training or up to 50 percent of the trainer's expense. In addition, the VTP offers grants to training providers who deliver offsite classroom training to employees from targeted sectors. Annual funding for the program is currently $1.3 million.

The enabling statute has been modified several times in recent years,[2] and the long-time manager of the program recently retired. As part of a continuing review of various aspects of the State's economic

[1] This historic relationship between productivity and higher wages has declined significantly since the late 1970s. http://www.epi.org/publication/ib330-productivity-vs-compensation/

[2] 10 VSA §531; 2010 Act 78, §14a; 2011 Act 52 §10; 2014 Act 176 §2 and 2014 Act 199 §42.

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development efforts,[3] we decided to examine the VTP to determine how it is performing and if it is in compliance with the statute.

Highlights

- The VTP has no effective internal controls to ensure that applicants meet the various eligibility requirements or that grant funds are only used for supplemental, rather than replacement, training.
- The wage increases reported for trainees may not accurately reflect changes in hourly wages and may reflect other factors not related to VTP training.
- A substantial portion of VTP's total resources are directed to a few large corporations year after year.

Eligibility

Each business applicant is required to certify that it offers a minimum of three (out of eight) benefits listed in statute and that it will pay a livable wage after completion of the training.[4] According to the Agency of Commerce & Community Development (Agency), VTP staff does not ask for any documentation regarding wages or benefits before the training, and it makes no effort to substantiate the information provided other than through conversations with applicants. Furthermore, none of the grantees have ever been audited.[5]

By contrast, the State's application forms for public assistance through the Department for Children & Families (DCF) ask for detailed information and documentation about financial resources such as income, bank accounts, retirement resources, and unearned income, as well as assets such as home, vehicles, life insurance, and so forth.[6] In addition, DCF periodically reviews selected applications and seeks additional supporting documentation.[7]

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3 The Auditor's Office has conducted a number of reviews and audits on this broad topic over the years. http://auditor.vermont.gov/audits/performance

4 10 VSA §531(b)(2) and (4). The list of benefits includes health insurance (at least 50% employer contribution), dental, paid vacation, paid sick leave, child care, paid holidays, pension benefit, or other extraordinary benefits. http://legislature.vermont.gov/statutes/fullchapter/10/022

5 March 11, 2015 e-mail to the State Auditor from the Agency of Commerce and Community Development.

6 Economic Services Division, DCF. Application for Food, Fuel, and Financial Assistance; Form 202.

7 April 6, 2015 telephone conversation with DCF Deputy Commissioner Sean Brown.

The State's Internal Control standards call for verification of information supplied by applicants when "reviewing…a participant's eligibility for State program services."[8]

> *"Verification…is the determination of the completeness, accuracy, authenticity and/or validity of transactions, events or information. It is a control activity that enables management to ensure activities are being performed in accordance with directives. Management should determine what needs to be verified, based on the risk to the department if there were no verification."*[9]

According to the Agency, the VTP has initiated a new grant review process. The Grant Plan states that proof of eligibility will be "confirmed & certified by [the] applicant in application and grant agreement." This represents no change in the Agency's reliance on self-certifications submitted by applicants and does not meet the State's internal control standard.

The VTP also provides grants to a number of training entities[10] that conduct offsite classroom training. The grant agreements require the grantee / training entity to "screen and ensure eligibility" of the employers who wish to have their employees participate.[11] When asked how it meets that obligation, the Executive Director of one of the largest training entities (Vermont Manufacturing Extension Center, VMEC) stated that he relies upon a self-certification process similar to the VTP.[12] As a result, none of the eligibility assertions by applicants for offsite training at VMEC are validated.

<u>Use of Funds – Compliance with Statute</u>

The statute specifies that program funds can only be used "to supplement training efforts of employers and not to replace or supplant training efforts of employers."[13] The Agency reported that VTP staff discuss this issue with applicants but make no effort to determine independently whether the planned training would supplement or replace other company training. When asked if there are records of such interactions, the Agency stated: "Much of these conversations happen in person and/or on the phone.

8 Vermont Department of Finance & Management, Internal Control Standards: A Guide for Managers, p.15.
9 Ibid.
10 For example, Vermont Manufacturing Extension Center (VMEC), Northwest Technical Center, Project Management Institute, UVM Center for Leadership & Innovation, etc.
11 April 2015 grant agreement between the Department of Economic Development and VMEC, Attachment A. 3.
12 July 27, 2015 e-mail to the State Auditor from Bob Zider, VMEC Exec. Director.
13 10 VSA §531(d)(3)

Especially with revised applications it is more beneficial (and efficient) to have a conversation."[14] While efficiency is an important consideration, it cannot relieve the VTP of its obligation to document critical elements of program administration to ensure compliance with the statute and to provide information necessary to evaluate performance.

According to the Agency, "Applicants are asked to outline these [training] efforts in detail as part of the application. The pre-application one-on-one discussions and on-site visits [serve to] substantiate [the applicant's] assertions."[15] While a description of the planned training is a useful point of departure, it may not be sufficient to answer the question of whether the training is supplemental or replacement. Moreover, self-interested statements by applicants cannot substitute for independent verification.

The Agency also stated: "The VTP is only looking to fund employee training initiatives that are new to the company. Specifically we are looking to fund employee training efforts that will result in the company moving into a new market, develop a new product, and/or have significant gains in productivity." Simply because training is "new to the company" does not tell us whether it will supplement or replace other training activity. For example, if a company was planning to move into a new market, develop a new product, or seek gains in productivity, it might have to train or re-train its workers. That is often part of the cost of doing business, especially for a company that is expanding. In such circumstances, a VTP grant could be used to pay for training that a company would have provided in the absence of VTP funding, which would appear to be contrary to legislative intent.

The 2014 VTP Annual Report provides information about the number of "new jobs trained." The report states: "The VTP provides funding for the training of new positions added to a company."[16] While the statute allows training grants to be used for new employees,[17] such grants can only be awarded for training that is supplemental, rather than replacement. This is critical because any business hiring new workers for jobs that require more than short-term on-the-job training will have to train such workers unless they have previous experience. Therefore, it's difficult to imagine what training would be supplemental for new hires since companies frequently need to train them anyway.

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[14] March 11, 2015 e-mail to the State Auditor from the Agency of Commerce and Community Development.
[15] Ibid.
[16] VTP FY 2014 Annual Report, page 9.
[17] 10 VSA §531(k)(2)

The VTP paid for the training of 994 new hires from 2012 – 2014 at a cost of $2.14 million,[18] which is more than half of all VTP funds appropriated during that period. This raises serious questions about the program's interpretation of statutory criteria and whether such subsidies are an appropriate use of public funds.

Performance Reporting

The only true outcome measure reported by the VTP is median quarterly wage increase post training.[19] Tracking wage data for program participants is required by statute, but there are a number of limitations and weaknesses to the current methodology. For example:

- The figures reported are not hourly wages. Instead of collecting hourly wage data from employers, the VTP asks the Vermont Department of Labor (VDOL) to report on changes in earned income for trainees from the quarter prior to training to the quarter following the year in which the training occurred. This approach ignores the possible impact of changes in the number of hours worked and whether an employee has a second job.
- The VDOL reports on the change in the median quarterly income for trainees. By definition, however, the median is the midpoint, which means 50 percent of trainees did better and 50 percent did worse. It is entirely possible that some trainees saw little if any increase in their hourly wage following VTP-financed training. By reporting only the median, the VTP fails to provide policymakers with the full range of wage outcomes.
- Wage data was only available for 46 percent of the workers trained in FY 2013 and 61 percent in FY 2014. This could mean the information reported is not representative of all trainees.
- The trainee wage data calculated by the VDOL is compared with statewide figures, although the former is the median while the latter is the average. It is unclear what impact, if any, results from the use of the different measures.
- The percent change in trainee and average statewide wages is measured over five quarters (2nd Quarter of the first year to the 3rd Quarter of the next). For the statewide comparison, the five quarter period produces significantly different results than a four quarter period, either annual or

18 VTP 2014 Annual Report, pages 7 and 9. Figure calculated by multiplying annual new jobs trained by the reported average cost per employee.

19 VTP reports other "key indicators" but they do not measure outcomes. For example, "funds appropriated" is a measure of inputs. The number and types of grants are measures of output. Although important, neither inputs nor outputs tell us anything about impacts on the employers or the workers trained.

2nd Quarter to 2nd Quarter.[20] The five quarter period is not adjusted to compensate for the different reporting periods (as is done by VDOL for employment data) so the comparative figures reported by the VTP may be misleading. We did not have access to the trainee wage data so we could not gauge the combined impact of methodological changes for both sets of figures.

- VTP reports a huge difference between the percent changes in trainee wages compared to average statewide wages.[21] The gap would decrease somewhat if VDOL used a four Quarter measure for the statewide figure instead of the current five quarter method. However, the remaining gap would still be large. The VTP reports the data without any qualifying commentary, leaving readers with the impression that VTP-funded training is the sole cause of the reported wage increases. The magnitude of the gap argues for additional analysis. For example, one possible contributing factor may be related to the fact that a substantial number of VTP-funded trainees are new hires. It is not uncommon for new hires to be paid an entry level wage for a review period after which they are made permanent employees and receive a wage increase. This could explain some portion of the wage increases.

Other factors making the wage data and comparisons of limited value include: "1) missing data or the absence of a control group used for comparison purposes; 2) the business cycle and other seasonal factors captured in quarterly data; 3) industry-specific factors which could impact wages by quarter; and 4) the quality of the training and the resulting productivity increases."[22]

The enabling statute requires the VTP to report annually on "whether training results in a wage increase for a trainee, and the amount of increase."[23] The current methodology cannot answer that question and the figures reported by the VDOL deserve careful scrutiny.

The Agency plans to begin collecting additional wage information to supplement the current DOL reports. Specifically, the VTP will now ask companies and trainers receiving grants to report pre- and post-training hourly wages. However, as with eligibility information, if the Agency doesn't attempt to validate the data, its accuracy cannot be ensured.

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[20] Calculations by the author using VDOL data from the QCEW.

[21] 2014 VTP Annual Report, p.5.

[22] Mathew J. Barewicz, Economic & Labor Market Information Chief, Vermont Department of Labor; *Preliminary Median Wage Analysis, Vermont Training Program Participants, Period of Training: Fiscal Year 2014*.

[23] 10 VSA §531(k)(9).

Distribution of Grant Funds

Over the past ten years, the VTP has paid $15.6 million in training subsidies. Of that, about two thirds went directly to employers for in-house training. The rest went to various training entities, such as the Vermont Manufacturing Extension Center, Vermont HITEC, Center for Technology, and others.

Over 260 businesses have received direct training grants from VTP since FY 2005, but the top 20 received almost half of all business grant funds (more than $5 million). This group includes some of the largest firms in Vermont, including Keurig Green Mountain, Dealer.com, IBM, Mylan, Plasan, Tivoly, Husky, Mack Molding, Dynapower and General Electric. Those ten firms alone received $3.36 million for in-house training over the past 10 years.

The issue of whether VTP grant funds are used to supplement or replace company training arises again when considering the frequency that some companies receive training subsidies. For example, five companies received VTP in-house training grants in five of the last 10 years.[24] Another 12 firms received such grants four times in 10 years[25] and 24 others had grants in three of the last 10 years.

The VTP does not routinely report the names of the companies or the number of workers that are trained offsite by the professional training entities, which receive a third of all funds expended and train half of all employees in the program. We reviewed the available information for three years (FY 2012 – FY 2014) and found that many of the firms that received multiple grants for in-house trainings also sent employees to outside trainings at taxpayers' expense. As a result, some companies have benefitted from training grants of one kind or another for at least seven or eight of the last ten years,[26] which further challenges applicant assertions that the trainings were supplemental rather than replacement.

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[24] Keurig Green Mountain, Dealer.com, IBM. Tivoly and NSA Industries.

[25] Mack Molding, GE Aviation, Champlain Cable, American Rail Dispatching, Weidman Electrical Technology, BioTek Instruments, Fab Tech, Logic Supply, GW Plastics, Twincraft Soap, Bradford Machine, and Vermont Coffee Company.

[26] Keurig Green Mountain, Dealer.com, IBM, NSA Industries, Tivoly, Mack Molding, GE Aviation, Champlain Cable, Fab Tech, Logic Supply, GW Plastics, and Twincraft Soap.

Livable Wage

In 2014, the legislature lowered the program's threshold for compensating trainees from twice the minimum wage (minus set-offs for certain benefits) to the livable wage as defined in 2 V.S.A. § 505. "Livable wage means the hourly wage required for a full-time worker to pay for one-half of the basic needs budget for a two-person household with no children and employer-assisted health insurance averaged for both urban and rural areas."[27]

The central premise of the livable wage is that it be sufficient to meet basic needs (including taxes) without recourse to public assistance.

> *"The standard for earned income must be higher than poverty, which is defined as material deprivation. We assume that compensation from full-time work should be adequate to ensure economic self-sufficiency and a decent standard of living. According to the U.S. General Accounting Office, self-sufficiency requires independence from publicly provided income and housing assistance, and adequate income to provide for basic needs*."[28] (Emphasis added)

As noted above, the VTP statute requires applicants to offer a minimum of three of the eight statutory benefits. One of the optional benefits is health insurance, so applicants can qualify without offering any health insurance coverage or by paying no more than 50 percent of the premium cost.[29] But the statute doesn't ensure that VTP grants lead to livable wages because the livable wage methodology used by the Joint Fiscal Office includes the assumption of a very generous employer contribution for health insurance.

> *"For the 2014* [Livable Wage] *report, the Blue Cross Blue Shield of Vermont (BCBSVT) Standard Gold plan, which is a qualified health plan that is sold through VHC, was chosen as the proxy for ESI [employer-sponsored insurance]. A gold plan was chosen because it is estimated that insured Vermonters on average have health coverage equivalent to a gold plan. An analysis done as part of the Act 128 Health System Reform Report (also known as "the Hsaio Report")*

[27] 2 VSA § 505(a)(3).

[28] Act 21 Research and Analysis In Support of the Livable Income Study Committee, Prepared for the Vermont State Legislature Livable Income Study Committee by Thomas Kavet, Deborah Brighton, Douglas Hoffer and Elaine McCrate, November 9, 1999, p. 1.1.

[29] 10 VSA §531(b)(2)(A)

using VHCURES data determined that 'for medical and drug benefits Vermont insurance plans already pay 87 percent of the costs on average, while the patient pays 13 percent in cost sharing' which is technically equivalent to a gold plan."[30]

In addition to the wage calculations that assume employer-sponsored health insurance, the Joint Fiscal Office (JFO) also determines the livable wage for those who do not receive employer-assisted health insurance. According to the JFO, the livable wage for a single person who is not provided health insurance is $14.13 per hour rather than the "official" livable wage of $13.00.[31] If a VTP business applicant provided health insurance but paid less than 87 percent of the cost, the livable wage would fall between those two figures.

Finally, as noted above, the "official" livable wage is based on expenses for a two-person household with no children living in a one-bedroom apartment.[32] An employee earning $13.00 per hour (with or without employer-assisted health care) might have a family for which a livable wage would be much higher.[33] Therefore, it is entirely possible that the State provides subsidies to companies whose VTP-trained employees receive public assistance.

Conclusion

The VTP has an important role to play in assisting Vermont workers and businesses, and must work hard to maximize the value of its limited resources. In doing so, it must also comply with the statute that created and defines the program. Based on the information available, it appears that the VTP is not in compliance with the statute in several important respects. Specifically, the VTP has no internal controls to ensure that applicants meet the various eligibility requirements or that grant funds are only used for supplemental, rather than replacement, training. The latter is especially important because it is evident that the legislature wanted to avoid paying for training that would have occurred without the public subsidy.

30 Joint Fiscal Office, *Basic Needs Budgets and the Livable Wage*, January 15, 2015, p.24.
31 Both figures are the average of urban and rural estimates, which vary.
32 http://legislature.vermont.gov/statutes/section/02/015/00505
33 http://www.leg.state.vt.us/jfo/reports/2015%20Basic%20Needs%20Budget%20report%2001-15-2015.pdf

In addition, the wage increases reported for trainees may not accurately reflect changes in hourly wages. Furthermore, the reported wage increases for trainees may reflect other factors having nothing to do with VTP-funded training. As the sole outcome measure of the program, it is essential that this indicator provide policymakers with correct and meaningful information.

And finally, policymakers may want to consider 1) whether it is desirable for so much of the limited resources available to the VTP to be directed to a few very large corporations year after year and 2) whether the program may be subsidizing employers who may have workers receiving public assistance.