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WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION

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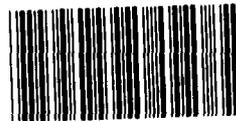
See form #115 for title

The Honorable John Conyers, Jr.
House of Representatives

Dear Mr. Conyers:

Your May 16, 1978, letter asked us to determine the Department of Labor's rationale for several of the participant eligibility and program emphasis provisions of its Skill Training Improvement Program (STIP). You also asked that we review how Labor's region V conducted the first round funding of STIP and, if problems occurred, any corrective actions taken for the second round. In a subsequent meeting with your office we further agreed to gather information on how the then-current Comprehensive Employment and Training Act of 1973 (CETA) title I program and the private sector initiatives program proposed in the 1978 CETA amendments bill were considered in the decision to initiate STIP and in STIP's design. This report summarizes a briefing given to your office on these matters.

Subsequent to your request CETA was amended by Section 2 of the Comprehensive Employment and Training Act Amendments of 1978 (1978 Act), Public Law 95-524, October 27, 1978. The authorization to provide comprehensive manpower services under title I of CETA was revised by title II of the 1978 Act entitled Comprehensive Employment and Training Services. The act created a private sector initiatives program under title VII. Training programs for special target groups authorized under title III of the original CETA are now contained in title III and portions of title IV. Because our fieldwork was done from June to August 1978 references to CETA are to the then-current 1973 CETA legislation rather than to the 1978 CETA amendments.



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GENERAL INFORMATION ON STIP

STIP was authorized under title III-A of the Comprehensive Employment and Training Act of 1973, as amended, (29 U.S.C. 874) and was first funded as part of the President's 1977 economic stimulus package. Labor's program guidelines specify STIP's primary objectives as:

- Improving the quality and increasing the level of skill training provided under CETA.
- Providing low-income, unemployed workers (particularly those with obsolete or inadequate skills) with new skills to obtain permanent unsubsidized employment, and improving skill levels and career opportunities of currently employed, low-income workers.
- Meeting industry skill needs as determined by the industry.
- Increasing private sector participation in designing and operating employment and training programs.

STIP training is to teach skills which can be sold on the labor market on a broad basis rather than preparing the individual to perform specific tasks oriented only to the needs of a particular employer. A distinguishing feature of STIP is greater involvement by the private sector than occurs in CETA title I activities. (Title I is the basic skill training title of CETA.) Labor believes that participants will have the best chance to move into good private sector jobs if local employers help to design and operate the program from the start, and commit themselves to retain participants as they complete the program.

STIP permits classroom training or combined classroom and on-the-job training. STIP training is not to be exclusively on-the-job training. Since training is to be for advanced skill occupations Labor expects training activities to last at least 6 months.

A total of \$325 million has been appropriated for STIP activities: \$250 million in the Economic Stimulus Appropriations, 1977, (P.L. 95-29, May 13, 1977) and \$75 million in Labor's fiscal year 1978 appropriation (provided in a continuing resolution, P.L. 95-205, Dec. 9, 1977). No funds have been requested for STIP in fiscal year 1979 and the program will terminate after current appropriations are spent.

STIP grants have been awarded to CETA title I prime sponsors 1/ in two competitive rounds. In late 1977 and early 1978, 142 grants totaling \$143,816,918 were announced and 165 grants totaling \$132,119,225 were announced in August 1978. Some grants were awarded to several prime sponsors submitting joint proposals. Also, Labor recently announced award of \$26,315,818 to 41 prime sponsors. These funds were available for round two but not awarded. Plans for using about \$23 million of the \$325 million had not been finalized as of December 1978. A Labor official told us that planning the CETA title VII training programs will have a higher priority than planning use of these funds.

Costs for STIP training were expected to average about \$4,300 per participant. Thus for the \$325 million appropriated about 75,600 people were to be served. However, based on prime sponsors' plans for the first round STIP awards (planned enrollment levels were not available for the second round) it appears that the cost per participant will be about \$5,900. Therefore, if this average cost per participant remains unchanged STIP will serve about 55,000 participants.

As of September 1978 (latest data available) Labor data showed that prime sponsors nationwide had spent \$40,264,019 and enrolled 15,265 participants.

STIP PROGRAM PROVISIONS

Your letter asked that we determine Labor's rationale for (1) relatively lengthy STIP training at relatively low pay; (2) emphasis on classroom training over on-the-job training; and, (3) a provision that employers make commitments to hire STIP participants prior to training, when they may be reluctant to do so, and the added disincentive to hire under on-the-job training because reimbursement is limited to 50 percent of a trainee's wage.

1/A CETA prime sponsor, generally, is a State or local government with a population of at least 100,000 or a combination (consortium) of local governments, one of which has a population of at least 100,000. There are currently about 460 prime sponsors.

STIP payments to
participants

Labor's program guidelines for STIP require that payments made to participants generally follow those provided for in CETA title I regulations. The regulations require that classroom training participants must be paid a basic allowance which is at least the higher of the local, State, or federal minimum wage. On-the-job training participants must be compensated at such rates as are reasonable considering such factors as industry, geographical region, and trainee proficiency. The regulations provide that the rate shall be the highest of the local, State or federal minimum wage, the prevailing rate of pay for persons employed in similar occupations by the same employer, or the minimum entrance rate for inexperienced workers in the establishment. For classroom training participants adjustments and additions to the basic allowance are authorized; and on-the-job training participants may receive periodic increases.

Labor's guidelines also allow for higher than minimum wage payments to STIP participants when classroom training is coupled with on-the-job training. In these instances the payments for hours spent in classroom training may equal up to the hourly wage for the position for which the participant is being trained. Additionally, the employer may be reimbursed up to 100 percent of the trainee's wage (not to include fringe benefits) for hours spent in classroom training when a trainee is hired by an employer at the beginning of training.

According to a Labor official the rationale for leaving allowance and wage level determinations to prime sponsors within the broad guidelines of CETA title I regulations was that STIP is to be phased out. By making STIP allowances similar to title I provisions, it would be easier for prime sponsors to continue STIP-type activities under title I after STIP's demise.

Labor data showed that in round one planned STIP payments ranged from \$2.65 per hour (the Federal minimum wage at the time of our review) to \$9.00 per hour. 1/ Nationwide averages

1/Labor's data was collected by its ten regional offices only for occupations where a prime sponsor will offer training to 15 or more participants. Payments for those occupations with less than 15 participants may be different.

show planned entry level payments to be \$4.35 per hour, with an increase to \$5.27 per hour after one year. Labor's latest available data showed that the average hourly wage for those entering unsubsidized employment out of title I activities was \$3.38 for the quarter ended September 30, 1978.

Emphasis on classroom over
on-the-job training

Labor officials who helped design STIP told us that they put the emphasis on classroom training because they felt that on-the-job training alone would not yield effective advanced skill training. They felt that without the strong classroom training emphasis prime sponsors' proposals would be primarily weighted to on-the-job training. To support this they supplied a study 1/which says:

"* * * Program evaluation studies have shown consistently that persons who are successful in moving from the institutional manpower training experiences into jobs with further skill enrichment potential show the largest gains in employment stability and earning after placement."

* * * * *

"* * * Although on-the-job training for a limited type of work can be successful for the disadvantaged, we have found that institutional training is likely to be much more successful where skill training is involved. Institutional training permits complete concentration on the training. It enables the training company to provide and to enforce proper rules. It eliminates dual sources of authority that evolve from collective bargaining in the shop. And it provides uninterrupted supervision and instruction. All of these are necessary in order to bring the disadvantaged through the mastery of a skill."

We recently reported on problems in providing classroom and on-the-job training activities under CETA title I. For a discussion of these problems and our recommendations to the Secretary of Labor, see "Job Training Programs Need More Effective Management" (HRD-78-96, July 7, 1978).

1/ Northup, Herbert R., et al; "Feasibility Study To Develop A Model For Furthering The Involvement Of Private Industry With CETA Sponsors Especially In Training And Placement"; Department of Labor Contract 21-42-77-02; July 15, 1977.

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Employer commitments to hire STIP graduates
and possible on-the-job training disincentives

Labor's guidelines for STIP encourage private sector employers, wherever possible, to provide commitments for unsubsidized employment of program graduates. Training is expected to last at least 6 months, although some training of slightly less than 6 months may be allowed by Labor's regional administrators.

A Labor official told us these "commitments" are not enforceable. The intent of this provision was to induce prime sponsors to actively contact employers and find out what skills are in demand. Labor has not gathered any systematic feedback on private sector commitments, although a Labor official told us that commitments varied from "none" to firm commitments to hire. Labor has contracted for an evaluation of STIP "commitments", among other things. The evaluation is to be completed in August 1979.

Regarding your question of possible disincentives to hire under on-the-job training provisions if reimbursement to employers is limited to 50 percent of a trainee's wages, CETA requires that payments to for-profit employers may only be for the costs of recruiting, training, and supportive services that are over and above those normally provided to regular employees by the employer. Thus CETA does not allow direct subsidization of participants' wages by for-profit employers. However, Labor regulations do allow using a formula which incorporates the trainee's wage as a factor and fixed unit cost contracting to reimburse private for-profit employers for the extraordinary on-the-job training costs. Reimbursement under such a formula may not exceed 50 percent of the participant's wages. A Labor official told us that prime sponsors are to negotiate this formula with employers. They are to require sufficient documentation to insure that payments to employers were made only for services that are actually provided and which were described in the prime sponsor's contract with the employer. Labor regulations allow prime sponsors to design other methods as long as the reimbursement reflects only extraordinary training costs.

STIP PARTICIPANT ELIGIBILITY PROVISIONS

In your letter you asked that we determine (1) why Labor targeted STIP on the long-term unemployed which disqualifies many intermittently employed persons; (2) why an otherwise qualified veteran who has obtained post-service employment is ineligible for STIP; and, (3) why participation in the upgrading of skills portion of STIP is limited to those in the lower 25 percent of the firm's pay scale.

Targeting on the long-term unemployed

Labor's program guidelines specify that a person is eligible for STIP training if he or she is a member of a family which is economically disadvantaged or which has a current total family income at or below 70 percent of the lower living standard income level 1/ in its area and has been unemployed for 15 or more of the 20 weeks immediately prior to applying. To be eligible a person also must not have obtained permanent full-time unsubsidized employment during the 20-week period. In addition, certain veterans, persons in a family receiving assistance under the Aid to Families with Dependent Children program, certain employed persons, and certain CETA participants are eligible for STIP.

According to a Labor official, the CETA title VI (transitional public service employment) eligibility criteria were generally followed. The House of Representatives appropriations committee report for the 1977 economic stimulus act 2/ emphasized that STIP was primarily to help low income people, particularly the long term unemployed and those who had exhausted their unemployment benefits, who were generally the title VI target population. Since the STIP and title VI target groups were roughly the same, Labor decided that it was appropriate to generally follow the title VI expansion requirements regarding eligibility.

Eligibility of veterans

Labor's guidelines state that a person is immediately eligible for STIP if he or she is:

* * * * A member of a family which is economically disadvantaged or which has a current total family income at or below 70 percent of the lower living standard income level * * * in the area in which they reside * * * and

* * * *

1/The term "lower living standard income level" means that income level (adjusted for regional, metropolitan, and urban differences, and family size) determined annually by the Secretary based upon the most recent "lower living standard budget" issued by Labor's Bureau of Labor Statistics.

2/H.R. Rep. No. 66, 95th Cong., 1st Sess. (1977).

"* * * a veteran who has served on active duty for a period of more than 180 days or who was discharged or released from active duty for a service-connected disability provided that such veteran has not obtained permanent full-time, unsubsidized employment between the time of discharge or release and the time of application and selection for STIP * * *"

The portion of the eligibility criteria involving veterans is consistent with the Vietnam Era Veterans Readjustment Assistance Act of 1972 (38 U.S.C. 2013 (1976)). The act, in part, requires that if a veteran (with other than a dishonorable discharge) meets the cited duty and disability criteria, any amounts received as pay or allowances while on active duty or any period of time served on active duty shall be disregarded in determining eligibility for any manpower training program financed in whole or in part with Federal funds.

Regarding your question of why an otherwise qualified veteran who has obtained post-service employment is ineligible for STIP, a Labor official told us that a veteran can become eligible to participate in STIP if the veteran meets the above income, duty, and disability criteria but has obtained permanent, unsubsidized employment after discharge or release. In this instance the veteran must meet the other STIP eligibility criteria (see p. 7) to be eligible for the program.

As an added attempt to aid veterans Labor's guidelines for the second round of STIP funding required that prime sponsors assure that they would take appropriate steps to provide for the increased participation of disabled veterans and qualified Vietnam-era veterans who were under 35 years of age. The prime sponsor was to establish goals in serving these veterans and use the assistance of State and local veteran employment service representatives in meeting these goals.

Participation in STIP upgrading of skills activities

In addition to training unemployed workers, STIP also provides for upgrading the skills of persons currently employed by private for-profit employers. Labor's guidelines state that to be eligible for upgrading a person must be:

- a member of a family which has a current total family income at or below a lower living standard income level based on family size and geographic location;

- in the lower 25 percent of the firm's pay scale;
- in an unskilled or semi-skilled occupation;
- employed by the current employer for at least 6 months.

The Labor guidelines require that the upgrade occupation should whenever possible provide a minimum one-third wage increase for the trainee. Also, the firm employing the upgrade participant must hire a new employee for the vacated job or for other lower level jobs on at least a one-to-one basis.

The Department of Labor decided that a STIP upgrading participant must be in the lower 25 percent of the firm's pay scale. According to a Labor official, Labor decided on this stringent criterion since those meeting the criterion would benefit more from upgrading of skills than those at higher pay levels who might be more qualified.

STIP FUNDING IN LABOR'S REGION V

Your letter asked that we review how Labor's region V conducted first round STIP funding and, if problems occurred, any corrective actions taken for the second round. You were specifically interested in the applications of the Detroit and Wayne County, Michigan, prime sponsors.

During round one Labor's region V received 53 applications from 54 prime sponsors totaling \$49,583,116. (Two prime sponsors submitted a joint proposal.) Region V awarded 14 grants in this round totaling \$8,399,413. During round two region V awarded 51 grants totaling \$48,392,866. Fifty-two prime sponsors applied for \$51,366,548 during this round. Region V prime sponsors did not apply for any of the \$26.3 million recently awarded from left over round two funds (see p. 3).

During round one both region V and prime sponsor applicants experienced problems.

Headquarters and region V instruction

Region V personnel had difficulties with the training provided by headquarters. A regional Labor official told us that the region reviewed simulated grant applications during the training; however, this exercise did not anticipate the variety of problems encountered when the actual proposals were received by the region. This problem did not reoccur during round two because of the experience gained in evaluating round one proposals.

A Detroit prime sponsor official told us that region V personnel supplied adequate responses to prime sponsors' questions raised during first round instruction to prime sponsors. Representatives of the Wayne County prime sponsor differed, stating that region V officials could not answer most questions during the instructional conference. They told us region V officials promised to provide responses in a week, but Wayne County officials felt that they could not wait that long since they had only 9 weeks to submit a proposal.

Labor region V and Wayne County prime sponsor officials felt the problems with regional instruction were alleviated for round two. Training for prime sponsor personnel was improved by the general emphasis on obtaining stronger employer commitments to hire and the participation of Bureau of Apprenticeship and Training representatives who emphasized that the proposed occupations must be in line with STIP objectives. Additionally, to forestall prime sponsors from submitting ineligible occupations for training, region V requested that prime sponsors informally submit proposed occupations for approval prior to formally submitting round two proposals.

Proposal development

Detroit and Wayne County prime sponsor officials told us that during round one they experienced difficulty in developing employer commitments to hire STIP graduates in the time allotted. They also experienced difficulty in developing detailed curricula for classroom training programs prior to proposal submission. Labor recognized these problems and extended the application period from 9 to 11 weeks. Labor officials noted that one of the important STIP objectives was to get these economic stimulus funds into the economy expeditiously.

Although round one and two application periods were both 11 weeks, Detroit and Wayne County and region V personnel felt that the added experience in writing and reviewing proposals helped improve the Detroit and Wayne County second round applications.

Proposal evaluation and selection

During rounds one and two region V used a rating panel to evaluate proposals. The panel gave each proposal a numerical score and ranked the proposals according to these scores. In round one the panel recommended that Labor's

regional administrator either: (1) fund the proposal as is; (2) fund the proposal only after negotiating changes with the prime sponsor to correct deficiencies; or (3) not fund the proposal under any circumstances. The region V rating panel noted the following problems with round one proposals:

- Unskilled, semiskilled, ineligible, or unidentifiable occupations were proposed.
- Apprenticeable occupations were proposed without union concurrence or Bureau of Apprenticeship and Training registration.
- Participant eligibility did not meet STIP standards.
- No employer involvement in training or placement.
- No employer commitments to hire.
- Curriculum lacking or not specific enough.
- Inappropriate or nonspecific expenditures.
- On-the-job training activity without a description of time to be spent in training.
- Excessive administrative costs.
- No STIP oversight committee.
- Add-on training to ongoing CETA title I activities rather than new programs.
- Proposal the same as that of the surrounding county prime sponsor.

For round one, region V required applicants to meet all the technical requirements of the program guidelines prior to the award announcement date. Since time ran out before the awards were to be announced and since region V recognized a second funding round was imminent, region V did not negotiate with those prime sponsors whose proposals were technically deficient. As a result both the ranking and recommendation procedures used during the proposal evaluation phase were abandoned and only 14 awards were made. In round two, region V announced provisional awards to meet the award announcement date, with the stipulation that the prime sponsors correct proposal deficiencies before the end of the fiscal year (the last day grants could be signed).

During round one, five prime sponsors coordinated their proposals by holding a joint meeting to solicit private sector involvement in STIP, and by having the same contractor design the program and write five similar proposals. One of the prime sponsors felt its proposal was downgraded by Labor because of the coordination effort as evidenced by the disparity in scores among the coordinated proposals. A Labor official told us that the disparity in scores was due to different occupations the prime sponsors proposed for training, even though the proposals were coordinated.

Region V officials told us that round two proposals, in general, were noticeably better than round one proposals, especially in the areas of employer commitments to hire and in the quality of proposed occupations to be filled.

TITLE I PROGRAM AND STIP

You asked that we gather information on how the CETA title I program figured into the decision to initiate STIP and into STIP's design. The impetus to initiate STIP apparently came from the Carter administration's transition team who worked directly with the House and Senate appropriations committees to obtain its passage. The administration believes that since 4 out of 5 jobs are created in the private sector a skill training program should have the private sector's active involvement. STIP was set up as a separate demonstration program to show that private sector involvement is a practical and desirable way to provide skill training.

Training activities under CETA title I include classroom and on-the-job training, work experience, and public service employment. However, since STIP is designed to involve private for-profit employers only classroom and on-the-job training are appropriate for the program. Labor regulations prohibit providing work experience through private for-profit employers and allow public service employment only through public and private non-profit employers.

STIP activities may include upgrading the skills of currently employed workers (see p. 8). Title I also allows upgrading the skills of currently employed persons. A Labor official told us, however, that title I regulations placing family income limits on participants effectively preclude upgrading under title I. Title I income limits are generally lower than the income limits under the STIP upgrading activities.

STIP participant eligibility criteria differ from the title I criteria. Title I eligibility is generally limited to unemployed, underemployed, or economically disadvantaged

persons. CETA title III regulations authorize the Secretary of Labor to establish special eligibility guidelines for those participating in skill improvement training programs. The Secretary chose to exercise this authority by establishing STIP participant eligibility criteria that are more stringent than those provided for in title I (see pp. 7-9). A Labor official told us that this was in response to House and Senate appropriations committee reports 1/ which stated that STIP was primarily intended to serve permanently displaced workers.

STIP classroom training allowances and on-the-job training wages paid to participants generally follow those provided for in title I regulations. (see p. 4). In some cases STIP allows higher than minimum wage payments. A Labor official told us that the provision for higher payments was to add incentives to participate in STIP.

According to a Labor official STIP was intended to be a short term demonstration program, and, if successful, prime sponsors would be encouraged to replicate STIP-type activities under the basic CETA training program.

PROPOSED PRIVATE SECTOR
INITIATIVES PROGRAM AND STIP

You asked that we gather information on how the proposed private sector initiatives program in the 1978 CETA amendments bill figured into the decision to initiate STIP and into STIP's design. A Labor official told us that the CETA amendments bill was drafted after the passage of the economic stimulus act (May 1977). He could not supply an approximate date. He stated, however, that after the 1976 Presidential election the administration placed a high priority on passing the stimulus package, which contained STIP as a new program, and the CETA amendments took a back seat. The proposed private sector initiatives program therefore apparently neither figured into the decision to initiate STIP nor in STIP's design.

The Labor official also told us that Labor's Employment and Training Administration drafted a CETA amendments bill that included STIP- and HIRE-type (Help Through Industry Retraining and Employment) activities which were, to some extent, nationally directed. The Secretary of Labor, with

1/H.R. Rep. No. 66 and S. Rep. No. 58, 95th Cong., 1st. Sess. (1977).

the advice of Labor's office of the Assistant Secretary for Policy, Evaluation, and Research, decided that CETA should remain as decentralized as possible and that private sector programs should be funded under the private sector initiatives title (title VII) of the amendments bill. The bill provided that prime sponsor plans for private sector initiatives are to be contained in the prime sponsors' comprehensive employment and training services plans and not in a separate application, as in STIP. This allows as much local decision-making as possible, with the individual prime sponsors making decisions on the types and mix of activities to be applied for.

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The information in this report was discussed with Labor headquarters and region V officials and their comments were considered in the report's preparation. As arranged with your office we are making copies of this report available to others who may be interested in it.

Sincerely yours,


Gregory J. Ahart
Director