State of California

Employment Training Panel

Arnold Schwarzenegger, Governor

June 4, 2008

Kevin Fraczek
Internal Business Operations Manager
Intel University
Hawthorne Farms 3
5200 NE Elam Young Parkway, M/S HF3-04
Hillsboro, OR 97124

Dear Mr. Fraczek:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET03-0308 for the period May 5, 2003 through May 4, 2005.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact me at (916) 327-5439.

Sincerely,

Original signed by:

Charles Rufo
Audit Director

Enclosures

INTEL CORPORATION

Agreement No. ET03-0308

Final Audit Report

For The Period May 5, 2003

through May 4, 2005

Report Published June 4, 2008

Charles Rufo, Audit Director
Telephone: (916) 327-5439

Audit Staff: Stephen Runkle

Employment Training Panel
Audit Unit
1100 J Street FL 4
Sacramento, CA 95814-2827

ET03-0308.fnl

TABLE OF CONTENTS

	Page Number
AUDITOR'S REPORT	
Summary	1
Background	2
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Audit Appeal Rights	3
Records	4
SCHEDULE 1 - Summary Of Audit Results	5
FINDINGS AND RECOMMENDATIONS	6

ATTACHMENTS

ATTACHMENT A - Appeal Process
ATTACHMENT B - Table of Disallowed Trainees

AUDITOR'S REPORT

Summary

We performed an audit of Intel Corporation's compliance with Agreement No. ET03-0308, for the period May 5, 2003 through May 4, 2005. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period October 2, 2006 through October 5, 2006.

The Employment Training Panel (ETP) reimbursed the Contractor a total of $623,846.55. Our audit supported $623,573.55 is allowable. The balance of $273 is disallowed and must be returned to ETP. The disallowed costs resulted from 1 trainee who did not complete sufficient class/lab training hours. In addition, we noted an administrative finding for inaccurate reporting of trainee wage rates and training end dates.

Background

Intel Corporation (Intel) was founded in 1968. The company manufactures semiconductor chips, various computer components, as well as networking and communications products. Intel is headquartered in Santa Clara and employs 14,400 Californians who work primarily in research and development and in support of operations worldwide.

This Agreement was the second training project between ETP and Intel. The goal was to allow Intel to provide more training on a faster timetable for its California employees to support the company's redeployment system, an alternative to layoffs. The training project provided for cross-training of employees to broaden their skills so they could remain employed at Intel by finding other jobs within the company, if their own jobs were eliminated. Intel proposed to train technology-manufacturing technicians, analysts, and managers employed by its divisions statewide. This Agreement provided for training in Business Skills, Computer Skills, Manufacturing Skills, and Continuous Improvement.

This Agreement allowed Intel to receive a maximum reimbursement of $1,688,154 for retraining 2,823 employees. During the Agreement term, the Contractor placed 1,266 trainees and was reimbursed $623,846.55 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Intel. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Intel complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training records support that trainees received the training hours reported by the Contractor and reimbursed by ETP.
- Trainees were employed continuously full-time for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.

- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion

As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported $623,573.55 of the $623,846.55 paid to the Contractor under this Agreement is allowable. The balance of $273 is disallowed and must be returned to ETP.

Views of Responsible Officials

The audit findings were discussed with Brian Launer, Project Manager, and Angela Jeffery, Instructor Manager, during an informal exit conference held on October 5, 2006 and with Kevin Fraczek, Internal Business Operation Manager via e-mail on May 27, 2008. A draft report was not issued to the Contractor since Mr. Fraczek concurred with the audit findings. Mr. Fraczek requested that the total disallowed costs plus interest due resulting form our audit be offset against funds earned on the current Agreement between ETP and Intel Corporation, ET08-0136.

The issuance of your final audit report had been delayed by the audit unit. Therefore, ETP will waive the accrual of interest resulting from this audit for the disallowed costs beginning October 5, 2006, through the issue date of this Final Audit report. You should contact the ETP Fiscal Unit upon receipt of this report to initiate the process to offset disallowed costs due against earned funds due under your current Agreement.

Audit Appeal Rights

If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "…to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor… This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Charles Rufo
Audit Director

Fieldwork Completion Date: October 5, 2006

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET03-0308 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

INTEL CORPORATION

AGREEMENT NO. ET03-0308

FOR THE PERIOD

MAY 5, 2003 THROUGH MAY 4, 2005

	Amount	Reference*
Training Costs Paid By ETP	$ 623,846.55	
Costs Disallowed:		
Insufficient Training Hours Attended	273	Finding No. 1
Inaccurate Reporting	-	Finding No. 2
Total Costs Disallowed	$ 273	
Training Costs Allowed	$ 623,573.55	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Insufficient Training Hours Attended

Intel Corporation's (Intel) training documentation did not support the total number of training hours reported for one Job No. 1 trainee. As a result, we disallowed 21 training hours claimed for this trainee in the amount of $273 [(21 training hours disallowed) x ($13 per hour)].

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractors to maintain and make available records that clearly document all aspects of training. Classroom/laboratory training records must include the training date(s) and hours attended, training type, and the trainer and trainee's signatures.

Paragraph 2 (b) of the Agreement between ETP and Intel Corporation states: "Due to the pilot/experimental nature of this Agreement, reimbursement will be based on the total actual number of training hours completed by training delivery method for each trainee. Additionally, 100% of reimbursement for class/lab and videoconference training for all trainees shall be earned only if 100% of the required training hours are delivered as substantiated by the Contractor's records."

Intel reported total class/lab training hours recorded on rosters for each individual trainee. ETP reimbursed Intel for each trainee in amounts equal to the number of hours reported. Trainee No. 1 had invoiced ETP for 138 training hours; however, due to missing class/lab training rosters, 21 training hours were not supported.

Recommendation

Intel must return $273 to ETP. In the future, the Contractor should ensure that training records support the reported number of training hours as required by the Agreement prior to claiming reimbursement from ETP.

FINDING NO. 2 – Inaccurate Reporting

Trainee hourly wage rates and training end dates reported by Intel on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Paragraph 2(d) of the Agreement states, "Contractor shall submit invoices and necessary statistical data to ETP in form and manner prescribed by ETP." Accurate, complete trainee wage rate information is required to verify compliance with Exhibit A, page 4, paragraph VII-A of the Agreement. This section states, "Each trainee must be employed full-time… for a period of at least ninety (90) consecutive days immediately following the completion of training… Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement]."

Wage information obtained from Intel shows that trainee hourly wage rates reported were incorrect for 47 out of the 63 trainees randomly tested. Actual hourly wage rates differed from reported wage rates by more than 5 percent for these trainees. Additionally, review of Intel's training records show that reported training end dates were incorrect for 52 out of the 63 trainees randomly tested.

Recommendation

In the future, the Contractor should ensure all trainee data reported to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

(a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.

(b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.

(1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.

(2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.

(A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:

(1) Refuse to hear the matter, giving the appellant written reasons for the denial; or

(2) Conduct a hearing on a regularly-scheduled meeting date; or

(3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.

(B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.

(C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.

(c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.

(d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.
Reference: Sections 10205(k), 10207, Unemployment Insurance Code.
Effective: April 15, 1995

Amended: December 30, 2006