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DEPARTMENT OF AUDITOR-CONTROLLER

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December 4, 2007

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **CITY OF PALMDALE CONTRACT – A COMMUNITY AND SENIOR SERVICES WORKFORCE INVESTMENT ACT PROGRAM PROVIDER**

We have conducted a program, fiscal and administrative contract review of City of Palmdale (Palmdale or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) program provider.

Background

CSS contracts with Palmdale, a government organization to operate the WIA Adult and Dislocated Worker Programs in the Fifth District. The WIA Adult and Dislocated Worker Programs assist individuals obtain employment, retain their jobs and increase their earnings. Palmdale subsequently subcontracted with Goodwill Industries of Southern California (Goodwill) to provide direct program services.

Palmdale is compensated on a cost reimbursement basis. CSS paid Palmdale $367,768 of which 100% of the amount was paid to Goodwill for Fiscal Year 2006-07.

Purpose/Methodology

The purpose of the review was to determine whether Palmdale appropriately monitored Goodwill to ensure that Goodwill complied with the contract terms. We also evaluated Palmdale's compliance with the WIA Program requirements.

Results of Review

Palmdale subcontracts with Goodwill to provide program services. Goodwill's close-out invoice included unsupported and undocumented expenditures. The disallowed expenditures totaled $8,169. For example, Goodwill:

- Purchased $3,464 in supplies in June 2006 without prior written approval from CSS. In addition, Goodwill did not document three price quotes for these purchases over $1,000 as required by WIA guidelines.

- Did not maintain adequate documentation to support $2,970 in travel expenditures.

- Inappropriately billed for one non-WIA employee's travel expenditures, totaling $1,735.

Subsequent to our review, Goodwill provided additional documentation to support $2,288 in questioned costs. The remaining amount of $5,881 was still undocumented.

In addition, Goodwill did not always prepare their bank reconciliations timely or report the services provided to ten (50%) of the 20 participants sampled on the Job Training Automation system.

Palmdale hired an accounting firm to monitor their sub-contractor, Goodwill, and ensure that all expenditures were supported. The accounting firm reported $41,587 in questioned costs for Fiscal Year 2005-06. As of the time of our review, Palmdale had not requested documentation or repayment from Goodwill.

Details of our review along with recommendations for corrective action are attached.

Review of Report

We discussed our report with Palmdale, Goodwill and CSS on September 18, 2007. In their attached response, Palmdale indicated that Goodwill provided supporting documentation for the disallowed expenditures. As indicated above, the original disallowed expenditures totaled $8,169 and Goodwill provided documentation to support $2,288. The remaining $5,881 was still undocumented as of the exit meeting.

Palmdale also indicated that they previously provided documentation to support the required three price quotes for purchases over $1,000. However, the documentation provided for our review did not support the Agency obtaining three price quotes for the purchase in question. Due to the confidential nature and volume of the documents provided, we did not include all the attachments submitted by Palmdale.

We will follow up on our recommendations during next year's monitoring review. We thank Palmdale for their cooperation and assistance during this review.

Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Cynthia Banks, Director, Department of Community and Senior Services
Robert W. Toone, Jr., City Manager, City of Palmdale
Public Information Office
Audit Committee

WORKFORCE INVESTMENT ACT PROGRAM
CITY OF PALMDALE
FISCAL YEAR 2006-07

ELIGIBILITY

Objective

Determine whether the City of Palmdale (Palmdale or Agency) effectively monitored Goodwill Industries of Southern California (Goodwill) to ensure that program services were provided to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We sampled 20 (30%) participants (10 adults and 10 dislocated workers) from a total of 67 participants that received services between July 2006 and April 2007 and reviewed their case files for documentation to confirm their eligibility for WIA program services. In addition, since Community and Senior Services (CSS) also contracted with Goodwill to provide WIA services in the First and Fifth Districts, we verified that the participants served under Palmdale's contract did not receive the same program services under Goodwill's contract.

Results

All 20 participants met the eligibility requirements for the WIA programs.

Recommendation

There are no recommendations for this section.

BILLED SERVICES/CLIENT VERIFICATION

Objective

Determine whether Palmdale effectively monitored Goodwill to ensure the subcontractor accurately reported the program services provided in accordance with WIA Program requirements. In addition, determine whether the program participants received the billed services.

Verification

We reviewed the documentation contained in the case files for 20 (30%) program participants that received services during July 2006 through April 2007. We also interviewed seven participants to confirm the services Palmdale billed to CSS were provided.

Results

The seven participants interviewed stated that the services they received met their expectations. However, Goodwill did not report the participants' program activities for ten (50%) of the 20 participants sampled on the Job Training Automation (JTA) system. Specifically, the JTA system was not updated to indicate the completion of the Individual Employment Plans and supportive services provided to the participants. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities. This finding was also noted in the prior year's monitoring report.

Goodwill also did not maintain documentation in the participant's case file to support the supportive services reported on the JTA system for one (5%) of the 20 participants sampled. According to Goodwill, the JTA system was incorrectly coded since the participant did not receive supported services.

Subsequent to our review, Goodwill updated the JTA system to accurately reflect the participant's program activities and requested CSS to correct the reporting errors on the JTA system.

Recommendation

1. **Palmdale management ensure that Goodwill accurately reports the participants' program activities on the Job Training Automation system as required.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenues were properly recorded in the Agency's records and deposited timely in their bank account. Determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's December 2006 bank reconciliation.

Results

Palmdale maintained adequate controls to ensure that revenues were properly recorded and deposited in a timely manner. However, Palmdale did not always prepare the bank reconciliations within 30 days of the bank statement date as required. Specifically, the bank reconciliations for January and February 2007 were not prepared as of April 2007. This was also noted in the prior year's monitoring report.

Recommendation

2. **Palmdale management ensure that bank reconciliations are prepared within 30 days of the bank statement date.**

EXPENDITURES/PROCUREMENT

Objective

Determine whether program related expenditures were allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and other documentation to support 33 non-payroll expenditures transactions billed by Palmdale's sub-contractor, Goodwill, for December 2006, totaling $26,673.

Results

Generally, Goodwill's expenditures were allowable and supported by documentation as required. However, Goodwill inappropriately allocated 100% of their telephone expenditures to the WIA Adult Program instead of allocating the telephone charges equally between both WIA Programs.

Subsequent to our review, Goodwill reallocated the telephone expenditures equally between the two WIA Programs.

Recommendation

3. **Palmdale management ensure that the sub-contractor appropriately allocates expenditures.**

INTERNAL CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the Agency maintained sufficient internal controls over its business operations. In addition, determine whether the Agency was in compliance with other program and administrative requirements.

Verification

We interviewed Palmdale personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

Results

Palmdale hired an accounting firm to monitor their sub-contractor, Goodwill, and ensure that all expenditures were supported. The accounting firm reported $41,587 in questioned costs for Fiscal Year 2005-06. As of the time of our review, Palmdale had not requested documentation or repayment from Goodwill.

In addition, Palmdale did not maintain a procurement policy in compliance with WIA guidelines. Specifically, Palmdale requires two price quotes for purchases over $1,000. However, WIA guidelines require three price quotes be documented for purchases over $1,000.

Recommendations

Palmdale management:

4. **Follow up with Goodwill to resolve $41,587 in questioned costs. Repay CSS for any questioned costs collected from Goodwill.**

5. **Ensure that the procurement policy is in compliance with WIA guidelines.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Palmdale's fixed assets and equipment purchases made with WIA funds are used for the WIA programs and that the items are properly safeguarded.

Verification

We conducted a physical inventory of nine (19%) of the 48 items funded by the WIA program.

Results

Palmdale used the equipment purchased with WIA funding for the WIA program. In addition, the item was safeguarded.

Recommendation

There are no recommendations for this section.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll is appropriately charged to the WIA program. In addition, determine whether personnel files are maintained as required.

Palmdale sub-contracted with Goodwill to provide WIA program services. As a result, Goodwill incurred the programs' payroll expenditure for FY 2006-07.

Verification

We traced and agreed the payroll expenditures invoiced by Goodwill for five employees totaling $18,015 to the payroll records and time reports for December 2006. We also interviewed one of the sub-contractor's employees.

Results

Goodwill appropriately charged payroll expenditures to the WIA Programs.

Recommendation

There are no recommendations for this section.

COST ALLOCATION PLAN

Objective

Determine whether the Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

Palmdale sub-contracted with Goodwill to provide WIA program services. As a result, Goodwill incurred the programs' expenditures for FY 2006-07.

Verification

We reviewed Goodwill's Cost Allocation Plan and reviewed a sample of expenditures incurred by Goodwill during December 2006 to ensure that the expenditures were properly allocated to the programs.

Results

As previously indicated, Goodwill inappropriately allocated 100% of the telephone expenditures to the WIA Adult Program instead of allocating the telephone expenditure equally between the WIA Adult and Dislocated Worker Programs. In addition, as

discussed below in the close out review section, Goodwill inappropriately allocated two FY 2005-06 program expenditures.

Recommendation

See recommendation #3.

CLOSE-OUT REVIEW

Objective

Determine whether Goodwill's Fiscal Year (FY) 2005-06 final close invoice was reconciled to the Agency's financial accounting records.

Verification

Goodwill incurred the programs' expenditures for FY 2005-06. As such, we traced and agreed Goodwill's FY 2005-06 general ledger to Goodwill's final close-out invoice for FY 2005-06. In addition, we reviewed a sample of transactions from Goodwill's FY 2005-06 general ledger.

Results

Goodwill's close-out invoice included unsupported and undocumented expenditures. The disallowed expenditures totaled $8,169. For example, Goodwill:

- Purchased $3,464 in supplies in June 2006 without prior written approval from CSS. The County contract indicates that purchases of supplies must be completed prior to the last two months of the contract period and exceptions to this restriction require prior written approval from CSS. In addition, Goodwill did not document three price quotes for these purchases over $1,000 as required by WIA guidelines.

- Did not maintain adequate documentation to support $2,970 in travel expenditures.

- Inappropriately billed for one non-WIA employee's travel expenditures, totaling $1,735.

Subsequent to our review, Goodwill provided additional documentation to support $2,288 in questioned costs. The remaining amount of $5,881 was still undocumented.

Goodwill also inappropriately allocated $1,966 in expenditures on their close-out invoice for FY 2005-06. Specifically, Goodwill allocated 60% of the expenditures to the WIA Dislocated Worker Program and 40% to the WIA Adult Program instead of allocating the

expenditures equally between the two programs as described by Goodwill's Cost Allocation Plan for FY 2005-06.

Recommendations

Palmdale management:

6. **Collect $5,881 from Goodwill and repay CSS, or obtain approval from CSS for the unauthorized purchases.**

7. **Ensure that the sub-contractor maintains adequate documentation to support the expenditures.**

8. **Review Goodwill's prior year allocations, determine the amounts over-allocated to the WIA Dislocated Worker Program and repay CSS.**

9. **Ensure that the sub-contractor document three price quotes for purchases over $1,000 as required by WIA guidelines.**

10. **Ensure that the sub-contractor request for reimbursement for actual program related expenditures.**

PRIOR YEAR FOLLOW-UP

Objective

Determine the status of the recommendations reported in the prior monitoring review completed by the Auditor-Controller.

Verification

We verified whether the outstanding recommendations from our FY 2005-06 monitoring review were implemented. The report was issued on April 24, 2007.

Results

The prior year's monitoring report contained eight recommendations. At the time of our review, Palmdale had implemented five (62%) of the eight recommendations. Of the remaining three recommendations, two recommendations related to Recommendations 1 and 2. The third outstanding recommendation required the Agency to repay CSS $52.

Palmdale management indicated they will repay CSS $52 and implement the outstanding recommendations during FY 2007-08.

Recommendation

11. **Palmdale management immediately repay CSS $52 and implement the outstanding recommendations from our FY 2005-06 monitoring report.**

PALMDALE

a place to call home

COMMUNITY
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Auxiliary aids provided for communication accessibility

October 4, 2007

Ms. Yoon Bae, CPA
Principal Accountant-Auditor
Department of Auditor-Controller
Countywide Contract Monitoring Division
1000 S. Fremont Avenue, Unit #51
Building A-9 East, First Floor
Alhambra, CA 91803

Dear Ms. Bae,

The following is the City of Palmdale's response to the Fiscal Year 2006-07 program, fiscal and administrative contract audit on the Workforce Investment Act (WIA) program at the South Valley WorkSource Center. Listed are your recommendations along with the City's correlating responses.

Recommendation

1. Palmdale management ensure that Goodwill reports the participants' program activities on the JTA system as required.

RESPONSE: The City of Palmdale has contracted with SBL Accountancy to provide monitoring services for the South Valley WorkSource Center that will review contract, fiscal and programming compliance.

Recommendation

2. Palmdale management ensure that bank reconciliations are prepared within 30 days of the bank statement date.

RESPONSE: The City of Palmdale Finance Department has staff available and is committed to ensure the bank reconciliations take place within 30 days of the statement date.

Recommendation

3. Palmdale management ensure that the sub-contractor appropriately allocates expenditures.

RESPONSE: The City of Palmdale has contracted with SBL Accountancy to provide monitoring services for the South Valley WorkSource Center that will review contract, fiscal and programming compliance. The City of Palmdale will also review the monthly invoices to ensure that expenses are appropriately allocated.

Recommendation

4. Follow-up with Goodwill to resolve $41,587 in questioned costs and ensure that the recommendations were implemented. Repay DCSS for any questioned costs collected from Goodwill.

RESPONSE: The City of Palmdale has obtained the supporting documentation and completed its review related to this initial finding from the SBL Accountancy monitoring of Goodwill. The City of Palmdale agrees that the expenses billed are appropriate and allowable. The allocation of time appears appropriate given the circumstances which directly relate to the initial certification process for the South Valley WorkSource Center. No repayment from Goodwill is necessary.

Recommendation

5. Ensure that the procurement policy is in compliance with WIA guidelines.

RESPONSE: The City of Palmdale is modifying the contract with Goodwill to add an amendment that specifically states that Goodwill is responsible for all procurements related to this contract in accordance with WIA and DCSS guidelines. The City of Palmdale will ensure that any purchases made for the South Valley WorkSource Center on this County contract will be requested through Goodwill. Goodwill procurement policy requires three price quotes be documented for purchases over $1,000 which is in compliance with WIA guidelines. This amended contract will be presented at the next monitoring review.

Recommendation

6. Collect $5,881 from Goodwill and repay DCSS, or obtain approval from DCSS for the unauthorized purchases.

RESPONSE: Goodwill provided at the exit meeting support for all of the expenses totaling $8,169 so the City of Palmdale disagrees with the comment and believe that no amount is owed. There are a few items in which approval is pending from DCSS which we have described below. We will re-send the support to the Auditor's office along with our responses for your review.

Of the supplies purchased missing written approval, these were items that were not necessarily office supplies. Of the $3,464, $1,498 was related to two invoices for advertisement costs for the Business Representative and Work Source Manager positions at the South Valley WorkSource Center. The remaining difference of $1,966 related to software for the program. $748 was for Dragon Naturally Speaking Software required and used by participants with speech impairment or limited mobility. $1,218 was for Jaws Professional Edition Software required and used by participants with vision limitations or with cognitive impairment. As discussed in the meeting, the City will submit a letter to DCSS asking for retroactive authorization of the expenditure. This document and DCSS's follow up authorization will be presented at the next monitoring review.

Of the $4,705, the support for both the $2,970 and $1,735 was provided which supports the invoice amounts. For the $1,735, this travel was directly related to the program due to the need for the certification of the South Valley Work Source Center. As suggested by DCSS, a budget modification was provided to the City of Palmdale by Goodwill to ensure that such funds are approved and available. However, the City of Palmdale has a one line budget with the County for the 3rd party sub-contractor amount and therefore, there is no change on the budget line item. Please let us know if you need additional information or if our understanding is not correct.

<u>Recommendation</u>

7. Ensure that the subcontractor maintains adequate documentation to support the expenditures.

RESPONSE: As stated, the City of Palmdale has contracted with SBL Accountancy to provide monitoring services for the South Valley WorkSource Center that will review contract, fiscal and programming compliance for the 2007-08 Fiscal Year. Also, as noted above, we believe that there is adequate documentation for these expenses. The City of Palmdale will submit a letter to DCSS for the authorization of required software and will obtain approvals in advance for additional supplies expense purchased in the last two months of the contract.

Recommendation

8. Review Goodwill's prior year allocations, determine the amounts over-allocated to the WIA Dislocated Worker Program and repay DCSS.

RESPONSE: The City of Palmdale will review invoices submitted to ensure proper allocations. See comments 6-7 above.

Recommendation

9. Ensure that the sub-contractor document three price quotes for purchases over $1,000 as required by WIA guidelines.

RESPONSE: The City of Palmdale has obtained documentation ensuring that WIA guidelines were met. Specifically, the purchase of the $1,218 software was a specialty item and documentation was on file by Goodwill to support that quotes were obtained. This support is attached to the letter for your review.

Recommendation

10. Ensure that the sub-contractor request for reimbursement for actual program related expenditures.

RESPONSE: The City of Palmdale has obtained the supporting documentation demonstrating the request for reimbursement was for actual program related expenditures. The supporting documentation was previously provided and is attached with our responses for your review. Additionally, the City of Palmdale has contracted with SBL Accountancy to provide monitoring services for the South Valley WorkSource Center that will review contract, fiscal and programming compliance.

Recommendation

11. Palmdale management immediately repay DCSS $52 and implement the outstanding recommendations from FY 2005-06 monitoring report.

RESPONSE: The City of Palmdale is in the process of reimbursing DCSS the $52 This amount was not paid due to a misunderstanding as the City was waiting to receive an invoice from DCSS.

If you have any questions regarding the submittal of the City's responses, please contact Donna Plummer, Senior Analyst at (661) 267-5166.

Sincerely,

Stephen H. Williams
City Manager

Danny Roberts, Assistant Executive Director
David Walter, Economic Development Manager
Dan Smith, Assistant Finance Director
Donna Plummer, Senior Analyst
Robert Soule, Director of WorkSource Centers, Goodwill SC
Lily Yee, Controller, Goodwill SC