



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
CHIEF DEPUTY

March 12, 2008

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: **NEW DIRECTIONS, INC. CONTRACT – A COMMUNITY AND SENIOR SERVICES WORKFORCE INVESTMENT ACT PROGRAM PROVIDER**

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

Background

CSS contracts with New Directions, a private non-profit community-based organization to provide and operate the WIA Adult Special Needs Program. The WIA Adult Special Needs Program is a comprehensive training and employment program to assist low income adults with substantial language and/or cultural barriers obtain employment, retain their jobs and increase their earnings. The types of services provided by New Directions include career planning, occupational skills, training and job placement. New Directions serves all five Districts.

New Directions is compensated on a cost reimbursement basis. New Direction's contract was for \$68,213 for Fiscal Year (FY) 2006-07.

Purpose/Methodology

The purpose of the review was to determine whether New Directions complied with its contract terms and appropriately accounted for and spent WIA funds in providing services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of Agency staff and clients.

Results of Review

Generally, New Directions maintained sufficient internal controls over its business operations and provided program services to eligible participants. However, New Directions has not repaid CSS \$363 in overbillings identified in the prior monitoring report. An additional \$33,085 in overbillings were identified during this year's monitoring review. Specifically, New Directions:

- Did not maintain adequate documentation to support program expenditures, totaling \$26,785.
- Billed CSS \$4,800 in non-WIA related expenditures.
- Billed CSS \$1,500 in program expenditures not approved in the County contract budget.

New Directions also did not always comply with WIA and County contract requirements. For example, New Directions:

- Did not report \$4.2 million in other revenue sources to CSS.
- Could not locate six (40%) of the 15 equipment items sampled. According to the Agency, the items were disposed of but the Agency did not update the inventory listing.
- Did not report the program activities on the Job Training Automation (JTA) system for five (50%) of the ten participants sampled.
- Did not maintain documentation to support the program activities reported on the JTA system for six (60%) of the ten participants sampled.
- Did not complete the Individual Employee Plans (IEP) for four (40%) of the ten participants sampled.

- Did not review the IEPs with the participants for five (50%) of the ten participants sampled on a monthly basis.

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

Review of Report

We discussed our report with New Directions and CSS on January 17, 2008. In their attached response, New Directions described their corrective actions to address the recommendations in our report. Due to the confidential nature of some of the documents provided by New Directions, we did not attach them to our report.

We thank New Directions 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
Toni Reinis, Executive Director, New Directions, Inc.
Public Information Office
Audit Committee
Workforce Investment Board

**WORKFORCE INVESTMENT ACT PROGRAM
NEW DIRECTIONS, INC.
FISCAL YEAR 2006-07**

ELIGIBILITY

Objective

Determine whether New Directions, Inc. (New Directions or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We reviewed the case files for ten (63%) of the 16 program participants that received services between July 2006 and February 2007 for documentation to confirm their eligibility for WIA services.

Results

All ten participants sampled met the eligibility requirements for the WIA Adult Special Needs program.

Recommendation

There are no recommendations for this section.

BILLED SERVICES/CLIENT VERIFICATION

Objective

Determine whether New Directions provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the program participants actually received the billed services.

Verification

We reviewed the documentation contained in the case files for ten (63%) participants that received services from July 2006 through February 2007. We also interviewed three participants.

Results

The three participants interviewed stated that the services they received met their expectations. However, New Directions did not always comply with WIA guidelines. Specifically, New Directions:

- Did not report the program activities, such as completion of training, on the Job Training Automation (JTA) system for five (50%) of the ten participants sampled. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activity. This finding was also noted during prior year's monitoring review.
- Did not maintain documentation to support the program activities, such as completion of training and supportive services, reported on the JTA system for six (60%) of the ten participants sampled.
- Did not complete the Individual Employee Plan (IEP) for four (40%) of the ten participants sampled. The IEP is an on going strategy jointly developed by the participant and case manager that identifies the participant's employment goals, appropriate achievement objectives and a combination of services to achieve long term employment.
- Did not review the IEPs with the participants on a monthly basis for five (50%) of the ten participants sampled.

Subsequent to our review, New Directions updated the JTA system to accurately reflect the program activities for five participants and provided additional documentation to support the program activities reported on the JTA system for six participants. In addition, New Directions completed the IEP for two of the four participants.

Recommendations

New Directions management:

- 1. Ensure that staff report all program activities on the JTA system within 30 days of the program activity as required by the County contract.**
- 2. Maintain documentation in the participants' case files to support the program activities reported on the JTA system.**
- 3. Complete the IEP and ensure that staff review the IEPs with the participants on a monthly basis.**

CASH/REVENUE**Objective**

Determine whether cash receipts and revenues are properly recorded in the Agency's records and deposited timely in their bank account. In addition, 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 New Directions' December 2006 bank reconciliation.

Results

New Directions properly recorded and deposited cash receipts and revenues in a timely manner. However, New Directions did not report all revenue sources to Community and Senior Services (CSS) as required by the County contract. Specifically, New Directions received \$4.2 million from other County, State and federal contracts that were not reported to CSS. According to Agency personnel, they were not aware that they had to disclose all their revenue sources.

Subsequent to our review, New Directions provided CSS a complete list of revenue sources.

Recommendation

4. New Directions management ensure that all revenue sources are disclosed to CSS.

EXPENDITURES/PROCUREMENT**Objective**

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

Verification

We interviewed Agency personnel, reviewed financial records and reviewed documentation to support the two (100%) non-payroll expenditure transactions billed by the Agency for September and December 2006, totaling \$ 2,205.

Results

New Directions billed CSS \$1,500 for Classroom Materials when the expenditures incurred were for incentives given to participants. According to Agency personnel, New Directions did not have an approved budget for participant incentives and billed CSS the \$1,500 under Classroom Materials, an approved budgeted cost category. New Directions also billed CSS \$705 for supplies instead of allocating the shared program expenditures among the programs benefited as required by the Agency's Cost Allocation Plan. The unallowable and unsupported expenditures totaled \$2,205.

Recommendations**New Directions management:**

5. **Repay CSS \$2,205.**
6. **Bill CSS for expenditures approved in the County contract budget. If expenditures are not in the approved contract budget, request a budget modification from CSS as required by the County contract.**
7. **Ensure that shared expenditures are allocated appropriately to the programs benefited.**

INTERNAL CONTROLS/CONTRACT COMPLIANCE**Objective**

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

Verification

We interviewed Agency 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

Generally, New Directions maintained sufficient internal controls over its business operations. However, New Directions' accounting manual did not include policies and procedures on Bonding, Audit and Reimbursement Procedures as required by the County contract.

Recommendation

8. **New Directions management ensure that the Agency's accounting manual is revised to comply with the County contract requirements.**

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether New Directions' fixed assets and equipment purchased with WIA funds are used for the WIA program and are adequately safeguarded.

Verification

We interviewed Agency personnel and review the Agency's equipment and inventory listing. In addition, we performed a physical inventory and reviewed the usage of 15 items funded by WIA funds, totaling \$8,226.

Results

New Directions could not locate six (40%) of the 15 items sampled, totaling \$3,604. According to Agency management, the six items were disposed of but the Agency did not update the inventory listing. In addition, New Directions disposed of the six items without obtaining authorization from CSS. New Directions also did not properly tag two (13%) of the 15 items sampled with County property tags as required by the County contract.

Recommendations**New Directions management:**

9. **Update the equipment inventory listing to accurately reflect changes in equipment disposition and location.**
10. **Obtain authorization from CSS prior to disposing equipment as required.**
11. **Ensure that inventory purchased with WIA funds are properly tagged with County property tags.**

PAYROLL AND PERSONNEL**Objective**

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

Verification

We traced the payroll expenditures invoiced for two employees totaling \$4,599 for September and December 2006 to the Agency's payroll records and time reports. We also interviewed one staff and reviewed the personnel files for two staff assigned to the WIA Program.

Results

New Directions billed CSS \$1,840 in unsupported payroll expenditures. Specifically, New Directions' employee timecards for the two employees reviewed did not always indicate the hours worked each day by program as required by the County contract. Similar findings were also noted during the prior year's monitoring review. In addition, New Directions did not obtain criminal clearances for the two (100%) employees sampled as required by the County contract.

Subsequent to our review, New Directions provided revised timecards for December 2006 to support \$833 of the \$1,840 in unsupported payroll expenditures.

Recommendations**New Directions management:**

12. **Repay DCSS \$1,007 (\$1,840 - \$833).**
13. **Ensure that payroll expenditures are adequately supported by timecards that indicate actual hours worked each day by program or documentation to support the allocations of the shared payroll expenditures.**
14. **Obtain criminal clearances for all employees assigned to the WIA program.**

COST ALLOCATION PLAN**Objective**

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

Verification

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

Results

As previously indicated, New Directions billed CSS \$705 for supplies instead of allocating the shared program expenditures among the programs benefited as required by the Agency's Cost Allocation Plan.

Recommendation

Refer to Recommendation #7.

CLOSE-OUT REVIEW**Objective**

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

Verification

We traced New Directions' FY 2005-06 general ledger to the Agency's final close-out invoice for FY 2005-06. In addition, we reviewed a sample of expenditures incurred in April, May and June 2006.

Results

New Directions overbilled CSS \$29,745. Specifically, New Directions did not maintain adequate supporting documentation for expenditures totaling \$24,945. In addition, New Directions billed CSS \$4,800 for non-WIA related expenditures.

Recommendations

New Directions management:

- 15. Repay CSS \$29,745**
- 16. Ensure that adequate documentation is maintained to support the program expenditures.**
- 17. Bill CSS for WIA 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 FY 2005-06 monitoring review were implemented. The report was issued on September 13, 2006.

Results

The prior year's monitoring report contained six recommendations. New Directions implemented two recommendations. As previously indicated, the findings related to Recommendations 1 and 13 contained in this report were also noted during the prior year's monitoring review. The remaining two recommendations required the Agency to repay CSS \$363 and provide documentation to support corrections made for the FY 2005-06 payroll expenditures. New Directions management indicated that the Agency plans to implement the outstanding recommendations by June 30, 2008.

Recommendations**New Directions management:**

- 18. Immediately repay CSS \$363.**
- 19. Implement the outstanding recommendations from the prior year's monitoring report.**



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February 7, 2008

J. Tyler McCauley
Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, CA 90012-2706

Dear J. Tyler McCauley:

In receipt of the Final Draft Report of the Administrative and Fiscal Contract Review for Fiscal Year 2006-2007, we would like to take this opportunity to respond to your results and recommendations.

ELIGIBILITY

Results

- All ten participants sampled met the eligibility requirements for the WIA Adult Special Needs program

Recommendations

- There are no recommendations for this section.

BILLED SERVICES/CLIENT VERIFICATION

Results

- New Directions did not report the program activities, such as completion of training, on the Job Training Automation (JTA) system for five (50%) of the ten participants sampled.
- New Directions did not maintain documentation to support the program activities, such as completion of training and supportive services, reported on the JTA system for six (60%) of the ten participants sampled.
- New Directions did not complete the Individual Employee Plan (IEP) for four (40%) of the ten participants sampled.
- New Directions did not review the IEPs with the participants on a monthly basis for five (50%) of the ten participants sampled.

Recommendations

1. Ensure that staff reports all program activities on the JTA system within 30 days of the program activity as required by the County contract.
2. Maintain documentation in the participants' case files to support the program activities reported on the JTA system.
3. Complete the IEP and ensure that staff reviews the IEPs with the participants on a monthly basis.

Subsequent to our review, New Directions updated the JTA system to accurately reflect the program activities for five participants and provided additional documentation to support the program activities reported on the JTA system for six participants. In addition, New Directions completed the IEP for two of the four participants.

Corrections

- New Directions has since reported all program activities, such as completion of training, on the Job Training Automation (JTA) system for the five participants sampled, and will report all program activities on the JTA system within 30 days of the program activity for all participants.
- New Directions has since collected and maintained documentation to support the program activities, such as completion of training and supportive services, reported on the JTA system for the six participants sampled and will continue to do so for all participants.
- New Directions has since completed the IEP for two of the four participants sampled (the remaining two participants have since left the program and are not available to sign the forms) and has changed its policy so that all residents complete an IEP during their initial assessment at program entrance rather than when they start job search activities which is typically six months after program entrance.
- New Directions has since reviewed the IEP for the five participants sampled and has changed its policy so that all residents complete an IEP during their initial assessment at program entrance which is then reviewed on a monthly basis as they prepare to start job search activities which is typically six months after program entrance.

CASH/REVENUE

Results

New Directions properly recorded and deposited cash receipts and revenues in a timely manner. However, New Directions did not report all revenue sources to Community and Senior Services (DCSS) as required by the County contract. Specifically, New Directions received \$4.2 million from various other County, State, and federal contracts that were not reported to DCSS. According to Agency personnel, they were not aware that they had to disclose all their revenue sources.

Subsequent to our review, New Directions provided a revised and complete list of revenue sources.

Recommendations

4. Ensure that all revenue sources are disclosed to DCSS as required.

Corrections

- New Directions has since disclosed all of its revenue sources in EXHIBIT C of the Budget which was forwarded to Yoon Bae at the time of the follow-up review on January 17, 2008.

EXPENDITURES/PROCUREMENT

Results

- New Directions billed DCSS \$1,500 charged to Classroom Materials when the expenditures incurred were for incentives given to participants. According to Agency personnel, New Directions did not have an approved budget for incentives and as such, billed CSS the \$1,500 under Classroom Materials, an approved budgeted cost category. New Directions also billed DCSS \$705 in Supplies instead of allocating the shared program expenditures among the programs benefited as required by the Agency's Cost Allocation Plan. The unallowable and unsupported expenditures totaled \$2,205.

Recommendations

5. Repay DCSS \$2,205.
6. Bill DCSS for expenditures approved in the County contract budget and if the expenditures are not in the approved contract budget, request a budget modification from CCS as required by the County contract.
7. Ensure that shared expenditures are allocated appropriately to the programs benefited.

Corrections

- The incentives given to participants in the amount of \$1,500 are legitimate expenses billed under Classroom Materials budget line item since we have very limited line items. A budget modification should have been done to cover these expenses. We will request a budget modification immediately. Total supplies billed to Vocational Programs (Program 05) for the FY 2006-07 was \$5,333.82 of which \$705 was allocated to WIA. We reviewed total supplies spending as well as historic spending patterns. We used total vocational program funding as the allocation base and concluded that WIA funding is 10.14% of the total (see the attached funding breakdown of vocational programs); therefore WIA's share of the total program supplies should be \$540 ($\$5,333.82 * 10.14\%$), so New Directions will repay the difference between \$705 and \$540, which is \$165.
- New Directions will bill DCSS for expenditures in the County contract budget starting immediately.
- New Directions will ensure that shared expenditures are allocated appropriately to the program benefited starting immediately.

INTERNAL CONTROLS/CONTRACT COMPLIANCE

Results

- New Directions maintained sufficient internal controls over its business operations. However, New Directions accounting manual did not include policies and procedures on Bonding, Audit, and Reimbursement Procedures as required by the County contract.

Recommendations

8. Ensure that the Agency's accounting manual is revised to comply with the County contract requirements.

Corrections

- New Directions is in the process of updating and revising its policies and procedures, which will include Bonding, Audit, and Reimbursement Procedures and should complete it by June 30, 2008.

FIXED ASSETS AND EQUIPMENT

Results

- New Directions could not locate six (40%) of the 15 items sampled, totaling \$3,604. According to Agency management, the six items were disposed, but the inventory listing was not updated. In addition, New Directions disposed the six items without obtaining authorization from CSS and did not properly tag two (13%) of the 15 items sampled with County property tags as required by the County contract.

Recommendations

9. Update the equipment and listing inventory to accurately reflect changes in disposition and/or location assignment.
10. Obtain authorization from CSS prior to disposing equipment as required.
11. Ensure that inventory purchased with WIA funds is properly tagged with County property tags.

Corrections

- New Directions has since updated the equipment and listing to accurately reflect changes in disposition and/or location assignment.
- New Directions will obtain authorization from CSS prior to disposing equipment as required starting immediately.
- The two items referred to are 1 multi-tool set and 1 printer which were properly tagged with County property tags, but the tags fell off after much use; New Directions will ensure that County property tags are replaced when they fall off after use starting immediately.

PAYROLL AND PERSONNEL

Results

- New Directions billed DCSS \$1,840 in unsupported payroll expenditures. Specifically, New Directions' employee timecards for the two employees did not always indicate the hours worked each day by program as required by County contract. In addition, New Directions did not obtain criminal clearances for the two (100%) employees sampled as required by the County contract. Subsequent to our review, New Directions provided revised timecards for December 2006 to support \$833 of the \$1,840 in unsupported payroll expenditures.

Recommendations

12. Repay DCSS \$1,007.
13. Ensure that payroll expenditures are adequately supported by timecards that indicate actual hours worked each day by program or documentation to support the allocations of the shared payroll expenditures.
14. Obtain criminal clearances for all employees assigned to the WIA program.

Corrections

- New Directions is working on improving its timecards to reflect more accurately the time and effort spent for each project. The December 2006 timecards we provided does support one employee in the amount of \$843.34 (see attached illustration); therefore New Directions will repay the difference between \$1,007 and \$843.34, which is \$163.66.
- New Directions will ensure that payroll expenditures are adequately supported by timecards that indicate actual hours worked each day by program or documentation to support the allocations of the shared payroll expenditures starting immediately.
- New Directions has the application for the Criminal Clearances for both Larry Williams and Rachel Feldstein, however, only has the ability to view the actual Criminal Clearances online and does not have the ability to print out the Criminal Clearances; New Directions has since added a note to the application for the Criminal Clearances indicating that the criminal clearance is complete and there are no exceptions, which is then initialized and dated by the staff member writing the note.

COST ALLOCATION PLAN

Results

- New Directions billed DCSS \$705 in Supplies instead of allocating the shared program expenditures among the programs benefited as required by the Agency's Cost Allocation Plan

Recommendations

Refer to recommendation #7.

Corrections

- New Directions will ensure that shared expenditures are allocated appropriately to the programs benefited starting immediately.

CLOSE-OUT REVIEW

Results

- New Directions over billed DCSS \$29,745. Specifically, New Directions did not maintain adequate supporting documentation for expenditures totaling \$24,945. In addition, New Directions billed DCSS for \$4,800 for non-WIA related expenditures.

Recommendations

15. Repay DCSS \$29,745.

16. Ensure that adequate documentation is maintained to support the program expenditures.

17. Bill DCSS for WIA related expenditures.

Corrections

- New Directions will repay the \$4,800 for Conference/Training since we cannot clearly relate the expenditure to WIA. The Vocational Training/Occupational Skills Training for April, May and June 2006 totaling \$17,444.65 was supported by the invoice from Los Angeles Community Colleges (LACC) dated 03/03/2006. New Directions incurred the expenses but had difficulty obtaining invoices from LACC in a timely manner, which affected the quality of the monthly billings to WIA and as a result included (accrued) such expenses in the monthly billing and adjusted the total in the last month, which was June 2006. The balance in question is \$7,500 for Vocational books and material. We agreed that the amount billed was not accurately reflected in the general ledger as coded to WIA project. However, we did a significant consolidation of general ledger numbers during that period and the expenses were properly recorded into another project. In light of the resources it would take to research these expenses over a year ago, we will agree to reimburse the amount at this time.
- New Directions will ensure that adequate documentation is maintained to support the program expenditures starting immediately.
- New Directions will bill DCSS for WIA related expenditures starting immediately.

PRIOR YEAR FOLLOW-UP

Results

- The prior year's monitoring report contained six recommendations. New Directions implemented two recommendations. As previously indicated, the findings related to Recommendations 1 and 13 contained in this report were also noted during the prior year's monitoring review. The remaining two recommendations required the Agency to repay DCSS \$363 and provide documentation to support corrections made for the FY 05-06 payroll expenditures. New Directions management indicated that the Agency plans to implement the outstanding recommendation by June 30, 2008.

Recommendations

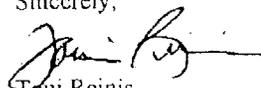
18. Immediately repay DCSS \$363.
19. Implement the outstanding recommendations from the prior year's monitoring report.

Corrections

- New Directions will repay CSS \$363 immediately.
- New Directions will implement the four outstanding recommendations from the prior year's monitoring report starting immediately which include:
 - Ensuring that staff reports all program activities on the JTA system within 30 days of the program activity as required by the County contract.
 - Ensure that payroll expenditures are adequately supported by timecards that indicate actual hours worked each day by program or documentation to support the allocations of the shared payroll expenditures.
 - Repaying DCSS the \$363 as stated above.
 - Providing documentation to support corrections made for the FY 05-06 payroll expenditures which were forwarded to Yoon Bae at the time of the follow-up review on January 17, 2008.

We hope that you are satisfied with the corrections made by New Directions. Thank you for your support.

Sincerely,



Tomi Reinis
Executive Director