



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

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April 24, 2008

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

FROM: Wendy L. Watanabe *Wendy Watanabe*
Acting Auditor-Controller

SUBJECT: **ARBOR EDUCATION AND TRAINING, LLC CONTRACT – A
COMMUNITY AND SENIOR SERVICES WORKFORCE INVESTMENT
ACT PROGRAM PROVIDER**

We have conducted a program, fiscal and administrative contract review of Arbor Education and Training, LLC (Arbor or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) Program provider.

Background

CSS contracts with Arbor, a limited liability corporation, to provide and operate the WIA Adult Special Needs Program. The WIA Adult Special Needs Program is a comprehensive training and employment program limited to low income adults 18 years or older, who face multiple barriers to employment. Arbor's offices are located in the Third and Fifth Districts.

Arbor is compensated on a cost reimbursement basis and has a contract for \$33,421 for the period of October 1, 2007 to June 30, 2008.

Purpose/Methodology

The purpose of the review was to determine whether Arbor complied with its contract terms and appropriately accounted for and spent WIA funds in providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's

"To Enrich Lives Through Effective and Caring Service"

accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff and clients.

Results of Review

Overall, Arbor provided program services to eligible participants and the Agency met the performance outcomes outlined in the County contract for FY 2006-07. However, Arbor did not repaid CSS \$2,614 for the unallowable expenditures reported in our prior monitoring report or implemented seven (88%) of the eight recommendations. Arbor also overbilled CSS \$3,099 in unsupported and unallowable expenditures in our current review. For example, Arbor:

- Billed CSS based on budgeted not actual expenditures resulting in an overbilling of \$1,658 (\$1,587 + \$71).
- Did not maintain adequate documentation to support expenditures totaling \$983.
- Did not appropriately allocate shared expenditures resulting in an overbilling of \$458.

In addition, Arbor did not always comply with WIA and County contract requirements. For example:

- Arbor did not obtain a criminal clearance for one (25%) of the four employees sampled.
- Arbor did not accurately report one participant's program activities on the Job Training Automation system.
- Arbor did not deposit checks totaling \$500 or more within one day of receipt.
- Arbor's procurement policy did not comply with WIA guidelines.

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

Review of Report

We discussed our report with Arbor and CSS on March 26, 2008. In their attached response, Arbor disagreed with the overbillings. Arbor billed CSS for more profit than allowed in the County contract. Arbor calculated their profit by charging CSS 1/12 of their total budgeted profit. However, the amount of profit allowed in the County contract should be based on actual not budgeted amounts. In addition, Arbor indicated that they provided multiple exhibits to support the expenditures that we questioned. As indicated in our report, instances where the Agency provided appropriate documentation, we adjusted our report accordingly.

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We thank Arbor 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.

WLW:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Cynthia Banks, Director, Department of Community and Senior Services
Gabriel Ross, Ph.D., President, Arbor Education and Training, LLC.
Ron Geary, Chairman of the Board, Arbor Education and Training, LLC.
Public Information Office
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM
ARBOR EDUCATION AND TRAINING, LLC
FISCAL YEAR 2007-08**

ELIGIBILITY

Objective

Determine whether Arbor Education and Training, LLC (Arbor or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We reviewed the case files for all four program participants that received services between July and December 2007 for documentation to confirm their eligibility for WIA services.

Results

All four participants met the eligibility requirements for the WIA program.

Recommendation

There are no recommendations for this section.

BILLED SERVICES/CLIENT VERIFICATION

Objective

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

Verification

We reviewed the documentation contained in the case files for the four participants that received services from July through December 2007. We also interviewed three participants.

Results

The three participants interviewed stated that the services they received met their expectations. However, Arbor did not accurately report one (25%) participant's program activities, such as completion of the Individual Employment Plan on the Job Training

Automation (JTA) system. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities.

Recommendation

1. **Arbor management ensure that staff accurately update the JTA system to reflect the participants' program activities.**

PERFORMANCE OUTCOMES

Objective

Determine whether Arbor met the planned performance measures as outlined in the County contract and accurately reported the performance outcomes to the Workforce Investment Board (WIB). The performance outcomes included measuring the number of participants that enrolled in the program, exited the program, completed training and/or gained employment.

Verification

At the time of our review, the performance outcomes for Fiscal Year (FY) 2007-08 were not available. As such, we compared the reported FY 2006-07 actual performance outcomes to the planned performance measures outlined in the County contract for FY 2006-07 and the program activities reported on the JTA system. In addition, we reviewed the documentation contained in the case files for eight (89%) of the nine program participants reported as having completed training and/or placed in employment during FY 2006-07.

Results

Generally, Arbor's FY 2006-07 actual performance outcomes were accurately reported to the WIB and the case files contained documentation to support the program activities reported on the JTA system. In addition, Arbor met the planned performance measures outlined in the County contract.

Recommendation

There are no recommendations for this section.

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 the Agency's November 2007 bank reconciliation.

Results

Arbor maintained adequate controls to ensure that revenue was properly recorded. However, Arbor did not always deposit checks in a timely manner as required by the County contract. Specifically, Arbor deposited one check, totaling \$1,345, more than 30 days after receipt and another check, totaling \$2,771, more than five days after receipt. The County contract requires checks totaling \$500 or more to be deposited within one day of receipt.

Recommendation

- 2. Arbor management ensure staff deposit all checks totaling \$500 or more within one day of receipt.**

EXPENDITURES/PROCUREMENT**Objective**

Determine whether 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 11 non-payroll expenditure transactions billed by the Agency for October 2007, totaling \$558.

Results

Arbor overbilled CSS \$71 in unallowable expenditures. Specifically, Arbor billed CSS for more profit than allowed in the County contract. Arbor calculated their profit by charging CSS 1/12 of their total budgeted profit. However, the amount of profit allowed

in the County contract should be based on actual not budgeted amounts. Similar findings were also noted during the prior year's monitoring review.

Recommendations

Arbor management:

- 3. Repay CSS \$71.**
- 4. Bill based on actual expenditures not budgeted amounts.**
- 5. Maintain adequate documentation to support program expenditures.**
- 6. Properly allocate shared program expenditures.**

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the Agency 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, Arbor maintained sufficient internal controls over its business operations. However, Arbor did not always comply with WIA and County contract requirements. Specifically:

- Arbor's procurement policy only requires documented price quotes for purchases over \$5,000 and \$2,000 for construction projects. WIA guidelines require three documented price quotes for purchases over \$1,000. This finding was also noted during the prior two years' monitoring reviews.
- Arbor did not submit monthly invoices within ten calendar days after month end as required by the County contract. For example, Arbor submitted the August 2007 invoice on September 20th and the October 2007 invoice on December 3rd. This finding was also noted during the prior year's monitoring review.

Recommendations

Arbor management:

7. Ensure that the Agency's procurement policies and procedures are in compliance with WIA guidelines.
8. Submit monthly invoices within the established timeframes of the County contract.

FIXED ASSETS AND EQUIPMENT

The objective of this section is to determine whether Arbor's fixed assets and equipment purchases made with WIA funds are used for the WIA program and are safeguarded.

We did not perform test work in this section as Arbor did not use WIA funds to purchase fixed assets or equipment.

PAYROLL AND PERSONNEL

Objective

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

Verification

We traced the payroll expenditures invoiced for all four employees totaling \$1,491 for October 2007 to the Agency's payroll records and time reports. We also interviewed two staff and reviewed the personnel files for the four staff assigned to the WIA program.

Results

Arbor appropriately charged payroll expenditures to the WIA program. However, Arbor did not always comply with WIA guidelines. Specifically, Arbor did not:

- Obtain a criminal clearance for one (25%) of the four employees sampled.
- Complete an annual performance evaluation for one (25%) of the four employees sampled.
- Maintain copies of the employees' driver's licenses, proof of automobile insurance or proof of employment eligibility for the four employees sampled.

Similar findings were also noted during the prior two years' monitoring reviews.

Recommendations

Arbor management:

- 9. Obtain a criminal clearance for all employees assigned to the WIA program.**
- 10. Conduct an annual performance evaluation on all employees.**
- 11. Ensure that required documentation is maintained in the personnel files.**

COST ALLOCATION PLAN

Objective

Determine whether Arbor'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 the Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency in October 2007 to ensure that the expenditures were appropriately allocated to the Agency's programs.

Results

Arbor's Cost Allocation Plan complied with the County contract requirements. However, as indicated in the expenditures and close-out review sections of this report Arbor did not appropriately allocate shared expenditures.

Recommendation

Refer to recommendation #6.

CLOSE-OUT REVIEW

Objective

Determine whether the Agency's Fiscal Year (FY) 2006-07 final close-out invoice reconciled to the Agency's financial accounting records.

Verification

We traced the Agency's FY 2006-07 general ledger to the Agency's final close-out invoice for FY 2006-07. We also reviewed a sample of expenditures incurred in April, May, June and September 2007. The FY 2006-07 contract term ranged from July 1, 2006 through September 30, 2007.

Results

Arbor overbilled CSS \$3,028 in unsupported and unallowable expenditures. Specifically, Arbor:

- Billed based on budgeted amounts not actual expenditures resulting in an overbilling of \$1,587.
- Did not maintain adequate documentation to support the expenditures totaling \$983.
- Did not appropriately allocate shared expenditures resulting in an overbilling of \$458.

Similar findings were also noted during the prior year's monitoring review.

Recommendation

12. Arbor management repay CSS \$3,028.

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 2006-07 monitoring review were implemented. The report was issued on July 5, 2007.

Results

The prior year's monitoring report contained eight recommendations. Arbor implemented one recommendation. As previously indicated, the findings related to Recommendations 5, 7, 8, 9, 10 and 12 were also noted during our prior monitoring review. The remaining recommendation required the Agency to repay CSS \$2,614.

Recommendations

- 13. Arbor management repay CSS \$2,614.**



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April 16, 2008

Department of Auditor-Controller
Countywide Contract Monitoring Division
1000 S. Fremont Avenue, Unite 51#
Building A-9 East, First Floor
Alhambra, CA 91803
Attention: J Tyler McCauley, Auditor-Controller

Dear Mr. McCauley,

This letter is in response to a request to revise previously submitted response letters to the contract review report dated April XX, 2008 regarding the WIA Adult Special Needs contract with the Department of Community and Senior Services (DCSS).

BILLED SERVICES/CLIENT VERIFICATION

Recommendation

1. Arbor management ensure that staff accurately update the JTA system to reflect the participants' program activities.

Response to #1

Arbor has implemented this recommendation as of program review date.

CASH/REVENUE

Recommendation

2. Arbor management ensure staff deposit all checks totaling \$500 or more within one day of receipt.

All mail for Arbor's Los Angeles Resource Center, including cash receipts, is sorted and delivered to the suite mailbox by building personnel. Arbor's suite/office is not staffed daily. Once the mail is retrieved by an Arbor financial staff member all cash receipts are shipped to a corporate bank account lockbox in Georgia for deposit. We understand the auditor's recommendation, and during the final term of the contract we will endeavor to mail checks to the lockbox as soon as they are logged in by a member of the financial staff.

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EXPENDITURES/PROCUREMENT

Recommendation

Arbor management:

3. Repay CSS \$118
4. Bill based on actual expenditures not budgeted amounts.
5. Maintain adequate documentation to support program expenditures.
6. Properly allocate shared program expenditures as required by the Agency's Cost Allocation Plan.

Arbor has studied the auditor's worksheet of allocations that supports the request to repay CSS \$118. They include:

- 3-A Profit over-billed: \$70.69
- 3-B No supporting documentation was provided: \$23.87
- 3-C One transaction was not allocated properly: \$23.12

Response to #4 and 3-A

Federal directives disallow service providers from billing a percentage of the expenditures. The 5% amount is the methodology used to state the amount of profit that the service provider will realize for contracting with the County of Los Angeles. The full amount of a contract's profit would be reflected on the final expenditure report submitted to the County of LA. During the 9 months of the contract under review, the monthly billing of profit was calculated at 9/12 of the total profit for the contract. This amount \$185.78 was billed monthly and will not calculate to 5% of monthly expenditures. This contract is a cost reimbursement contract not a cost-plus-fees contract. See exhibits previously supplied to the auditor's office. (FAR 16.301-1 and FAR 15.404-4.

Arbor disagrees with the finding of an overbilling of \$70.69.

Response to #5 and 3-B

Arbor is a solely owned subsidiary of Rescare, Inc. a for profit corporation with headquarters in Louisville, KY. Fringe benefits for all employees, as well as insurance for Rescare entities are negotiated, processed, and paid by Rescare's corporate office. Payments to AP vendors are also processed exclusively in Louisville. The documentation for these expenditures would not be available until after a member of the auditor-controller's staff visits an Arbor Office and requests a sample of expenditures.

The support for the expenditures for #2: Insurance \$14.66 and business tax \$9.21 have been previously supplied to the auditor's office

Response to #6 and 3-C

Arbor allocates shared costs between the City of Los Angeles WIA

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and the County of Los Angeles Adult Special Needs contracts.

The methodology used to allocate expenses is monthly wages. The auditor has noted an overbilling of \$23.12 on a \$3000 expenditure. In researching the allocation we found the payroll share for the City of Los Angeles contract was 97%. If we subtract the 97% from 100% the difference is 3%. That 3% was used to allocate the \$3000.00 cost for parking validations. The amount allocated and reported was \$90.00.

Arbor disagrees with the auditors' finding of an overpayment of \$23.12.

We previously supplied multiple exhibits to support this response to the auditor's office.

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

Recommendation

7. Ensure that the Agency's procurement policies and procedures are in compliance with WIA guidelines
8. Submit monthly invoices within the established timeframe of the County contract.

Response to #7

Arbor E&T, LLC, a Kentucky limited liability company, is a subsidiary of Rescare, Inc. All changes to procurement policies and procedures would be established by Rescare, Inc. At this time there is no timeframe for this recommendation to be implemented.

Response to #8

This recommendation has been implemented with current monthly invoices submitted within the established timeframe of the County contract.

PAYROLL AND PERSONNEL

Recommendations:

9. Obtain a criminal clearance for all employees assigned to the WIA program.
10. Conduct an annual performance evaluation on all employees.
11. Ensure that required documentation is maintained in the personnel files.

Response to #9 #10 and #11

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Arbor management has implemented the three recommendations as of the date of the fiscal review.

BILLED SERVICES/CLIENT VERIFICATION

Recommendations:

12. Arbor management repay CSS \$3,028

Response to #12

Arbor management disputes this recommendation to repay CSS. On the close out invoice for the period July 1, 2006 through September 30, 2007, Arbor submitted cumulative expenditures of \$45,819. In our research we have found the following information.

Actual program and admin expenditures:	\$38,659.13
Profit:	3,426.00
Indirect rate:	4,534.47

Allowed to bill according the budget line items:	
Net Program expenditures:	\$36,775.91
Admin:	1,082.57
Profit:	3,426.00
Indirect rate:	4,534.47
Total reported to CSS	\$45,818.95

We have attached copies of the general ledger, the close out invoice and the billing worksheet used to prepare the close out invoice.

PRIOR YEAR FOLLOW-UP

Recommendations:

13. Arbor management repay CSS \$2,614

14. Implement the recommendations noted in this report

Response to #13

The expenditures recorded on the general ledger are \$41,638.89. (see general ledger report attached) The billed account is \$42,078.94. Arbor agrees to a repayment of \$554. Arbor disagrees with the balance of profit and indirect rate to be repaid to CSS. We have responded to the profit calculation in #4 and #3-A.

Response to #14

Arbor will ensure that all program expenditures are supported and accurately reported in the general ledger. Arbor disagrees with the auditor-controller's calculation of profit billed to CSS.

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Please contact me at 323-932-2556 if there are any questions regarding
this response.

Thank you.



Maryann O'Brien
Accounting Manager
Arbor E&T
Los Angeles Resource Center

Enc.

cc: Karen Ramage
Cindy Swaisgood
Gary Suter