COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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JOHN NAIMO
AUDITOR-CONTROLLER

September 1, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo
Auditor-Controller

SUBJECT: **SOLEDAD ENRICHMENT ACTION, INC. – A COMMUNITY AND SENIOR SERVICES LOS ANGELES COUNTY YOUTH JOBS PROGRAM PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of Soledad Enrichment Action, Inc. (SEA or Agency), which included a sample of transactions for the service period from July 2014 through October 2015. Community and Senior Services (CSS) contracts with SEA to provide Los Angeles County Youth Jobs (LACYJ) Program services. The LACYJ Program provides assessments, paid work experience, and training to youth and young adults between the ages of 14 to 24 years old from the California Work Opportunities and Responsibility to Kids, Foster, Probation, Homeless, and General Relief Programs, and low-income households.

The purpose of our review was to determine whether SEA appropriately accounted for and spent LACYJ Program funds to provide the services outlined in their County contract. We also evaluated the Agency's financial records, internal controls, and compliance with their County contract and other applicable guidelines.

Our review covered one LACYJ Program contract with SEA, for which CSS paid the Agency approximately $610,000 on a cost-reimbursement basis during July 2014 through October 2015. SEA provides services to residents of the First and Second Supervisorial Districts.

Results of Review

We found SEA complied with the eligibility requirements for all our samples, had support for all their billings that we tested, properly recorded revenue, and conducted their reconciliations on a timely basis. However, SEA's single audit reports for the years ended June 30, 2013 and June 30, 2015 disclosed material weaknesses and significant deficiencies in the Agency's ability to adequately safeguard LACYJ program funds. Specifically, SEA did not reconcile balance sheet accounts and prepared financial statements that were materially misstated, thereby requiring their independent auditor to propose correcting adjustments in order to conform with Generally Accepted Accounting Principles. SEA did not obtain a single audit report for the year ended June 30, 2014 because SEA did not meet the funding threshold during Fiscal Year (FY) 2013-14. Although these findings were not directly related to the LACYJ Program, material weaknesses and significant deficiencies in the Agency's controls over financial reporting impacts the Agency's ability to adequately safeguard LACYJ Program funds.

In addition, our review of SEA's LACYJ Program indicated that the Agency did not always comply with all of their other County contract requirements. For example, SEA:

- Overcharged CSS $17,238 in payroll and employee benefit expenditures for July through September 2015.

  SEA's attached response indicates that after our review they reconciled their billings to their actual payroll and employee benefit expenditures, and will provide CSS with supporting documentation that no repayment is due.

- Did not provide adequate documentation to support the rates used to allocate $3,553 in shared non-payroll expenditures to the LACYJ Program.

  SEA's attached response indicates that they will reallocate all expenditures charged to the LACYJ Program during July 2014 through September 2015, provide CSS with supporting documentation, and ensure that all expenditures charged to the LACYJ Program are allowable, properly documented, and appropriately allocated.

Details of our review, along with recommendations for corrective action, are attached (Attachment I).

Review of Report

We discussed our report with SEA and CSS. SEA's attached response (Attachment II) indicates agreement with our findings and recommendations. CSS will work with SEA to ensure that our recommendations are implemented.

We thank SEA management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Aggie Alonso at (213) 253-0304.

JN:AB:PH:AA:EB:pn

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Cynthia D. Banks, Director, CSS
Kendra Tankersley, Board Chairwoman, SEA
Nathan Arias, President and Chief Executive Officer, SEA
Public Information Office
Audit Committee

SOLEDAD ENRICHMENT ACTION, INC.
LOS ANGELES COUNTY YOUTH JOBS PROGRAM
CONTRACT COMPLIANCE REVIEW
JULY 2014 THROUGH OCTOBER 2015

ELIGIBILITY

Objective

Determine whether Soledad Enrichment Action, Inc. (SEA or Agency) maintained documentation to support the eligibility of clients that the Agency claimed received Los Angeles County Youth Jobs (LACYJ) Program services.

Verification

We reviewed the documentation stored in the case files for 25 (14%) of the 184 clients that SEA claimed received LACYJ Program services during July through October 2015.

Results

SEA maintained documentation to support the eligibility of the 25 clients reviewed.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether SEA maintained documentation to support the services charged to Community and Senior Services (CSS).

Verification

We reviewed the case files for 25 (14%) of the 184 clients that the Agency claimed received LACYJ Program services during July through October 2015.

Results

SEA maintained documentation to support the services provided to the 25 clients reviewed.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether SEA properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank reconciliations were prepared timely, and reviewed and approved by Agency management.

Verification

We interviewed SEA's management, and reviewed their financial records and August 2015 bank reconciliations for three bank accounts.

Results

SEA properly recorded revenue in their financial records, and bank reconciliations were prepared timely, and reviewed and approved by Agency management. However, SEA did not deposit CSS cash receipts totaling $500 or more into their bank account within one day of receipt as required. Specifically, SEA received six payments, totaling $55,483, from CSS for the LACYJ Program on October 20, 2015, but did not deposit the payments until five business days later on October 27, 2015.

Recommendation

1. **Soledad Enrichment Action, Inc. management ensure that all Community and Senior Services cash receipts totaling $500 or more are deposited within one day of receipt as required.**

COST ALLOCATION PLAN/EXPENDITURES

Objective

Determine whether SEA developed their Cost Allocation Plan (Plan) using an appropriate cost allocation methodology, and if expenditures charged to the LACYJ Program were allowable, properly documented, and appropriately allocated.

Verification

We interviewed SEA personnel, and reviewed their Plan and financial records for 14 non-payroll expenditures, totaling $6,908, that the Agency charged to the LACYJ Program from July 2014 through September 2015.

Results

SEA developed their Plan using an appropriate cost allocation methodology. However, SEA inappropriately charged $3,676 (53%) of the $6,908 in non-payroll expenditures reviewed to the LACYJ Program. Specifically, SEA:

- Did not provide adequate documentation to support the rates used to allocate $3,553 in shared insurance and audit fee expenditures to the LACYJ Program during June 2015.

- Overcharged CSS $123 for supportive service expenditures.

Recommendations

Soledad Enrichment Action, Inc. management:

2. **Reallocate all expenditures charged to the Los Angeles County Youth Jobs Program during July 2014 through September 2015, provide Community and Senior Services with supporting documentation, and repay any unallowable or unsupported amounts.**

3. **Repay Community and Senior Services $123.**

4. **Ensure that all expenditures charged to the Los Angeles County Youth Jobs Program are allowable, properly documented, and appropriately allocated.**

ADMINISTRATIVE COMPLIANCE

Objective

Determine whether the Agency was in compliance with their LACYJ Program and other County contract administrative requirements.

Verification

We interviewed Agency management and personnel, reviewed their policies and procedures manuals, and conducted an on-site visit.

Results

SEA's single audit reports for the years ended June 30, 2013 and June 30, 2015 disclosed material weaknesses and significant deficiencies in the Agency's ability to adequately safeguard LACYJ program funds. Specifically, SEA did not reconcile balance sheet accounts and prepared financial statements that were materially misstated, thereby requiring their independent auditor to propose correcting

adjustments in order to conform with Generally Accepted Accounting Principles. SEA did not obtain a single audit report for the year ended June 30, 2014 because SEA did not meet the funding threshold during Fiscal Year (FY) 2013-14. Although these findings were not directly related to the LACYJ Program, material weaknesses and significant deficiencies in the Agency's controls over financial reporting impacts the Agency's ability to adequately safeguard LACYJ Program funds.

Recommendation

5. **Soledad Enrichment Action, Inc. management develop procedures to ensure that balance sheet accounts are reconciled on a regular basis in conformity with Generally Accepted Accounting Principles.**

PAYROLL AND PERSONNEL

Objective

Determine whether SEA maintained personnel files as required and charged payroll expenditures to the LACYJ Program that were allowable, properly documented, and appropriately allocated.

Verification

We reviewed the personnel files for five new LACYJ Program employees. We also compared the payroll expenditures for the five employees and five clients, totaling $14,219 for September 2015, to the Agency's payroll records and time reports.

Results

SEA maintained personnel files as required. However, SEA overcharged CSS $17,238 in payroll and employee benefit expenditures for July through September 2015. Specifically, SEA billed CSS $53,960 in payroll and employee benefit expenditures for July through September 2015. However, their accounting records indicated that their payroll and employee benefit expenditures totaled $36,722, resulting in SEA overcharging CSS $17,238 ($53,960 - $36,722). We noted a similar finding during our prior year's monitoring review.

In addition, SEA did not always ensure that employees took their lunch breaks within the required timeframes. Specifically, one (20%) of the five employees reviewed did not take their lunch break within the required timeframe on two (18%) of the 11 days he worked during the pay period reviewed. As a result, SEA incurred penalties which they inappropriately charged to the LACYJ Program. Although the amount of the penalties was immaterial, California Labor Laws require employers to ensure employees take their lunch breaks within the required timeframes.

Recommendations

Refer to Recommendation 4.

Soledad Enrichment Action, Inc. management:

6. **Repay Community and Senior Services $17,238.**

7. **Review all payroll expenditures charged to the Los Angeles County Youth Jobs Program during Fiscal Year 2015-16, and repay Community and Senior Services for any unallowable or unsupported amounts.**

8. **Ensure employees take their lunch breaks as required by California Labor Laws.**

CLOSE-OUT REVIEW

Objective

Determine whether SEA's FY 2014-15 Close-Out Expenditure Reports reconciled to their financial records.

Verification

We compared the total revenues and expenditures from SEA's FY 2014-15 Close-Out Expenditure Reports to their financial records and to CSS' payment records.

Results

SEA's FY 2014-15 Close-Out Expenditure Reports reconciled to their financial records. However, we noted that the Agency inappropriately charged CSS for unsupported non-payroll expenditures in the Cost Allocation Plan/Expenditures section of this report.

Recommendation

Refer to Recommendation 2.

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John Naimo, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 S. Figueroa Street, 8th Floor
Los Angeles, CA 90071

Re: SOLEDAD ENRICMENT ACTION, INC – A COMMUNITY AND SENIOR SERVICES' LOS ANGELES COUNTY YOUTH JOBS PROGRAM PROVIDER – CONTRACT COMPLIANCE REVIEW

Attached is the Soledad Enrichment Action, Inc's (SEA) response to the Auditor-Controller's (A-C) report, which details the A-C's findings/recommendations of SEA's contract compliance review.

Should you require any additional information, please feel free to contact me at (213) 480-4262 or via email at mromero@seacharter.net .

Sincerely,

Mirna Romero
Director of Business & Finance

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CASH/REVENUE

Recommendation

1. **Soledad Enrichment Action, Inc. management ensure that all Community and Senior Services cash receipts totaling $500 or more are deposited within one day of receipt as required.**

   SEA Response:

   SEA has implemented a new protocol that will require SEA to deposit all CSS checks that are over $500.00 within one day of receipt.

COST ALLOCATION PLAN/EXPENDITURES

Recommendations

Soledad Enrichment Action, Inc. management:

2. **Reallocate all expenditures charged to the Los Angeles County Youth Jobs Program during July 2014 through September 2015, provide Community and Senior Services with supporting documentation, and repay any unallowable or unsupported amounts.**

   SEA Response:

   SEA will reallocate all expenditures and present CSS with the supporting documentation. Moving forward, SEA will make sure that all expenses being charged to CSS have the adequate supporting documentation.

3. **Repay Community and Senior Services $123.**

   SEA Response:

   SEA agrees and will repay CSS $123.00.

4. **Ensure that all expenditures charged to the Los Angeles County Youth Jobs Program are allowable, properly documented, and appropriately allocated.**

   SEA Response:

   After the review, SEA has reconciled all expenditures and will provide CSS with documentation that all expenses are allowable, properly documented, and appropriately allocated.

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ADMINISTRATIVE COMPLIANCE

Recommendation

5. **Soledad Enrichment Action Inc. management develop procedures to ensure that balance sheet accounts are reconciled on a regular basis in conformity with Generally Accepted Accounting Principles.**

   SEA Response:

   SEA will design and implement a procedure to reconcile balance sheet accounts at year end to ensure that the financial statements are in accordance with GAAP.

PAYROLL AND PERSONNEL

Soledad Enrichment Action, Inc. management:

6. **Repay Community and Senior Services $17,238.**
   SEA Response:
   After the review, SEA reconciled the payroll expenditure reports to actual costs and will provide CSS supporting documentation that no repayment is due.

7. **Review all payroll expenditures charged to the Los Angeles County Youth Jobs Program during Fiscal Year 2015-16, and repay Community and Senior Services for any unallowable or unsupported amounts.**
   SEA Response:
   All payroll expenditures charged to CSS have been reconciled and no repayment is due. In the future, SEA will make sure that all expenses charged to CSS align with the budget, scope of work, and have all supported documentation attached.

8. **Ensure employees take their lunch breaks as required by California Labor Laws.**
   SEA Response:
   SEA will implement a protocol which will give notices to employees and even disciplinary actions to ensure employees take their lunch breaks as required by California Labor Laws.