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April 15, 2011

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **MANAGED CAREER SOLUTIONS, INC. – WEST SAN GABRIEL VALLEY CONTRACT REVIEW – A COMMUNITY AND SENIOR SERVICES WORKFORCE INVESTMENT ACT PROGRAM PROVIDER**

We completed a program, fiscal and administrative contract compliance review of Managed Career Solutions, Inc. – West San Gabriel Valley (MCS – West or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) Program provider. The WIA Formula Adult and Dislocated Worker Programs assist individuals in obtaining employment, retaining their jobs and increasing their earnings. The WIA American Recovery and Reinvestment Act (ARRA) Adult and Dislocated Worker Programs and Governor's Economic Stimulus (Stimulus) Dislocated Worker Program supplement funding for the WIA Formula Programs.

CSS compensated MCS – West on a cost-reimbursement basis for contracts totaling $1,549,946 ($866,230 for Formula, $672,520 for ARRA and $11,196 for Stimulus) for Fiscal Year 2009-10. MCS – West serves participants residing in the First District.

Results of Review

MCS – West maintained adequate controls to ensure that cash and revenue were properly recorded and deposited in a timely manner. However, MCS – West billed CSS $27,379 in questioned costs. Specifically, MCS – West:

- Billed CSS $17,106 for program expenditures not supported by the Agency's accounting records.

  Subsequent to our review, MCS – West provided additional documentation. However, the additional documentation did not adequately support the program expenditures.

- Billed 100% of the customized training costs to CSS. According to WIA Directive LACOD-WIAD08-8, the employer is required to pay a minimum of 50% of the costs of the customized training. Questioned costs totaled $7,356 ($4,495 + $2,861).

  MCS – West's attached response indicates that they will repay CSS $2,921 and they will work with CSS to resolve the remaining $4,435 ($7,356 - $2,921) in questioned costs.

- Did not comply with their Cost Allocation Plan in allocating shared program expenditures, resulting in $2,067 in questioned costs.

  MCS – West's attached response indicates that they will reallocate the shared program expenditures and repay CSS for any excess amounts billed.

- Billed CSS $850 for unallowable expenditures.

  Subsequent to our review, MCS – West repaid CSS $850.

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

- Did not maintain separate general ledgers for each program as required by Part A, Section 2.4 of the Auditor-Controller's Contract Accounting and Administration Handbook.

  MCS – West's attached response indicates that they will maintain separate general ledgers for each program as required.

- Did not develop and implement all WIA ARRA policies and procedures as required.

  MCS – West's attached response indicates that they subsequently developed all the required WIA ARRA policies and procedures. However, the policies and procedures provided were not in compliance with WIA requirements.

- Did not attach County property tags on four (40%) of the ten equipment items sampled as required by Attachment XIV of the County contract.

Subsequent to our review, MCS – West tagged the four items with County property tags.

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

Review of Report

We discussed our report with MCS – West and CSS on February 9, 2011. In their attached response, MCS – West generally agreed with our findings and recommendations. As indicated above, the Agency repaid CSS $850 and agreed to repay $2,921, resulting in remaining questioned costs totaling $23,608 ($27,379 - $850 - $2,921). CSS management indicated that they will resolve any outstanding findings in accordance with their Resolution Procedures Directive.

Due to the confidential nature of the attachments provided, we did not include the Agency's attachments in our report. We thank MCS – West management for their cooperation and assistance during our review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer
Cynthia D. Banks, Director, Community and Senior Services
Philip Starr, Psy.D., Executive Director, Managed Career Solutions, Inc.
Joseph R. Saldana, Chairperson, Managed Career Solutions, Inc.
Public Information Office
Audit Committee

WORKFORCE INVESTMENT ACT PROGRAMS
MANAGED CAREER SOLUTIONS, INC. – WEST SAN GABRIEL VALLEY
FISCAL YEAR 2009-10

ELIGIBILITY

Objective

Determine whether Managed Career Solutions, Inc. – West San Gabriel Valley (MCS – West or Agency) provided services to individuals that met the eligibility requirements of the Workforce Investment Act (WIA) Formula, American Recovery and Reinvestment Act (ARRA) and Governor's Economic Stimulus (Stimulus) Programs.

Verification

We reviewed the case files for 42 (14%) (ten Formula Adults, ten ARRA Adults, ten Formula Dislocated Workers, ten ARRA Dislocated Workers and two Stimulus Dislocated Workers) of the 302 participants that received services from July 2009 through April 2010 for documentation to confirm their eligibility for WIA services.

Results

Generally, MCS – West maintained appropriate documentation to support the eligibility of the 42 participants sampled.

Recommendation

None.

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 42 (14%) participant case files that received services from July 2009 through April 2010.

Results

MCS – West billed Community and Senior Services (CSS) for 100% of the customized training costs received by all five (100%) participants who received customized training

in our sample. According to WIA Directive LACOD-WIAD08-8, the employer is required to pay a minimum of 50% of the costs of the customized training. The amount overbilled for the 5 participants totaled $4,495.

In addition, MCS – West did not accurately report one participant's program activities on the Job Training Automation (JTA) System as required by WIA Directive LACOD-WIAD08-38. Specifically, MCS – West reported that the participant was enrolled in non-WIA funded training, instead of WIA funded training. The State of California Employment Development Department and the Department of Labor use the JTA System to track WIA participant activities.

Recommendations

MCS – West management:

1. **Repay CSS $4,495.**

2. **Review all participant case files to identify the participants who received customized training, determine whether the training was appropriately billed and repay CSS for any amounts billed in excess of the allowed 50% of the costs of customized training.**

3. **Ensure that employers pay a minimum of 50% of the customized training costs.**

4. **Ensure staff update the Job Training Automation System to accurately reflect the participants' program activities.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenue 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 bank activity for January, February and March 2010.

Results

MCS – West maintained adequate controls to ensure that cash and revenue were properly recorded and deposited in a timely manner.

Recommendation

None.

COST ALLOCATION PLAN

Objective

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

Verification

We reviewed the Cost Allocation Plan and a sample of expenditures incurred by the Agency in July 2009 and February 2010 to ensure that the expenditures were properly allocated to the Agency's programs.

Results

MCS – West's Cost Allocation Plan was prepared in compliance with the County contract. However, MCS – West did not comply with their Cost Allocation Plan in allocating shared program expenditures, resulting in $2,067 in questioned costs. Specifically, MCS – West billed CSS $1,277 for inappropriately allocated expenditures, such as office supplies, maintenance, and $790 for facility expenditures that were not allocated to all programs that occupied the space and benefited from the costs.

Recommendations

MCS – West management:

5. **Reallocate the $2,067 and the remaining Fiscal Year (FY) 2009-10 shared program expenditures among all benefited programs and repay CSS for any excess amounts billed to each WIA Program.**

6. **Ensure that shared program expenditures are appropriately allocated among all benefiting programs.**

EXPENDITURES/PROCUREMENT

Objective

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

Verification

We interviewed Agency personnel and reviewed financial records and documentation for 25 non-payroll expenditure transactions billed by the Agency for July 2009 and February 2010, totaling $45,533.

Results

MCS – West billed CSS $20,817 in unsupported or unallowable costs. Specifically, MCS – West billed CSS:

- $17,106 in unsupported expenditures. The Agency's financial records did not support the program expenditures charged to the WIA Programs.
- An additional $2,861 in questioned costs related to billing 100% of customized training costs to CSS in February 2010. As previously indicated, the employer is required to pay a minimum of 50% of the customized trainings costs.
- $850 for unallowable expenditures. Subsequent to our review, MCS – West repaid CSS $850.

Recommendations

MCS – West management:

Refer to Recommendations 2, 3, 5 and 6.

7. **Repay CSS $19,967 ($20,817 - $850) or provide documentation to support the program expenditures.**
8. **Maintain adequate documentation to support the program expenditures.**
9. **Request reimbursement for allowable 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 areas such as expenditures, payroll and personnel.

Results

MCS – West did not always comply with WIA and County contract requirements. Specifically:

- MCS – West did not maintain separate general ledgers for each program as required by Part A, Section 2.4 of the Auditor-Controller's Contract Accounting and Administration Handbook.

- MCS – West's procurement policy and procedures manual did not require a minimum of three documented price quotes for purchases over $1,000 as required by WIA Directive D-DWA-00-037. Subsequent to our review, MCS – West updated their procurement policy to comply with WIA guidelines.

- MCS – West did not develop and implement written procedures for monitoring the customized training programs to ensure that the terms of the agreement complied with WIA Directive LACOD-WIAD08-8.

- MCS – West did not develop and implement WIA ARRA policies and procedures to provide priority of services to low income individuals, veterans and mature workers, coordinate special projects, priorities and initiatives with WIA ARRA Programs and identify, evaluate and track needs-related payments as required.

Recommendations

MCS – West management:

10. Maintain separate general ledgers for each program.

11. Ensure that staff complies with the Agency's revised procurement policy.

12. Develop and implement written procedures for monitoring customized training programs.

13. Develop and implement all required WIA ARRA policies and procedures.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether MCS – West's fixed assets and equipment purchases made with WIA funds are used for the WIA Programs and are safeguarded.

Verification

We interviewed Agency personnel and reviewed the Agency's fixed assets and equipment inventory listing. In addition, we performed an inventory and reviewed the usage of ten items purchased with WIA funds, totaling $3,778.

Results

MCS – West used the equipment purchased with WIA funds for the WIA Programs and the assets were safeguarded. However, MCS – West did not:

- Attach County property tags on four (40%) of the ten items sampled as required. Subsequent to our review, MCS – West appropriately attached County property tags to the four items.

- Identify the name of the individual the items were assigned to for 50 (86%) of the 58 items as required. Subsequent to our review, MCS – West updated their inventory listing to include all the required information.

Recommendations

MCS – West management:

14. Ensure that fixed assets and equipment are tagged with County property tags.

15. Ensure that the Agency's inventory listing is complete and contains all the required information.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the WIA Programs. In addition, determine whether the Agency verified employability and maintained current driver's licenses and proof of automobile insurances for the employees assigned to the WIA Programs.

Verification

We traced the payroll expenditures invoiced for five employees totaling $9,847 for February 2010 to the Agency's payroll records and time reports. We also reviewed the personnel files for five employees assigned to the WIA Programs.

Results

MCS – West appropriately charged payroll expenditures to the WIA Programs and the personnel files were maintained as required.

Recommendation

None.

CLOSE-OUT REVIEW

Objective

Determine whether the Agency's FY 2008-09 final close-out invoices for the WIA Programs reconciled to the Agency's accounting records.

We did not perform test work in this section, as MCS – West did not have WIA contracts for FY 2008-09.

Recommendation

None.

Managed Career Solutions, Inc.
(dba MCS Rehabilitation)

Philip Starr, Psy.D., C.R.C., A.B.V.E.
Esteban Magallanes, Psy.D., C.R.C., C.D.M.S.

March 2, 2011

Wendy L. Watanabe, Audit-Controller
Department of Auditor-Controller
Countrywide Contract Monitoring Division
350 S. Figueroa Street,8th Floor
Los Angeles CA 90017
Attention: Katherine Urbanski

Finding : Customized training billed 100% to CSS

Attached schedule of training costs incurred for the customized training of West San Gabriel clients. The schedule will include the costs paid by MCS/WSGV charged to CSS and costs incurred by the employer. Please note that the clients are monolingual and required a special customized training by the employer. As negotiated with the employer, MCS/WSGV paid the tuition costs as normally charged by the vendor and the Employer paid for their contribution of supervision, clinical sites and supportive services. The program proceeded successfully and all students were trained, received a C.N.A. license, which is an industry recognized credential, and were placed in employment as Certified Nursing Assistants.

MCS customized training is within the guidelines of WIA Directive WIAD 08-08. However, based on our financial analysis, there is a discrepancy between the contribution made by MCS and contribution of the Employers. MCS paid total of $8,989 and Employers paid total of $6,068. The difference is $2,921. MCS is prepared to return to CSS $2,921, in conformance with WIA directive WIAD 08-08.

MCS/WSGV staffs are continously attending all training provided by CSS to update us in the JTA system and program activity timeframe. In addition, MCS will conduct internal review process to monitor the updating of the client information in the JTA system. MCS now timely reviews all CSS WIA directives to assure full compliance.

Finding: Cost incurred inappropriately allocated

Shared costs are allocated based on the percentage of the actual salary costs per program computed based on the allocated time per program per timesheet. We are currently reallocating the costs incurred at West San Gabriel Valley WorkSource to share the costs to all benefited program. Should are reallocation will result to excess billing, we will reimbursed CSS for the amount of the overbilling. Please note however, we request to apply any Stand-In Costs that will be identified.

Finding: Expenditure not supported

Comparison of cost as of December 31, 2009 and June 30, 2010, disclosed amount billed per program were within the amount recorded in the General Ledger:

- Of the $17,106, includes question costs of $5,675 on salary billed to Formula Dislocated. The YTD billing of salary costs in the February 2010 invoice includes December 2009 in the amount of $5,675.71 not reimbursed in the December 2009 invoice due to budget adjustment. As discussed and agreed with our assigned Program Analyst, Ms Carol Cabrera, allocated salary costs of December 2009 not reimbursed by CSS was billed in the subsequent month billing invoice. Attached is the General Ledger Detail listing of Salary Account-Formula Dislocated that will show the allocated salary for Formula Dislocated from December 2009 to June 2010 and Billing Invoice as of June 2010 Formula Dislocated.
- Question costs of $2,545 billed for subcontractor/partner Goodwill Industries. Comparison of the actual amount billed and paid to Goodwill for Formula Dislocated with the YTD billing amount of Subcontractor Costs-Goodwill to CSS disclosed Stand In costs of $5,932 as of June 30, 2010(see attached). Please note that due to Goodwill delay in submission of invoice, we estimate and accrue subcontractor costs on monthly basis and adjust and correct the amount recorded in the GL and amount in the billing upon receiving the actual billing invoice from Goodwill.
- For other line items question costs ($8,481), comparison of the billing invoice as of June 30,2010 with the YTD amount per GL (Jan to June 2010) disclosed stand-in costs. Over billing amount of the subcontractor will be subsequently corrected in the final billing invoice of ARRA Adult and Dislocated PY2009-10(extended to June 2011). Please see attached schedule,billing and GL Summary.

Please note that for the Fiscal Year 2009-10, we have separate General Ledger for Formula Adult, Formula Dislocated and ARRA Program. Stimulus fund program transactions are included in the Formula Dislocated and monthly worksheet to allocate costs between Formula Dislocated and Stimulus – Dislocated Worker program are maintained and use as a basis to generate the billing invoice. A monthly worksheet to allocated costs of the ARRA program between Adult and Dislocated are also maintained to allocate the costs between the two programs. For 2010-11, MCS will have separte GL for each program.

Attached revised policies and procedures to include minimum of three documented price quotes for purchased of over $1,000.00 to comply with the County guidelines and procedures. MCS will ensure compliance of the revised procurement policy.

Attached is the revised page 39-40 of MCS policies and procedures to include WIA ARRA priority of services to low income individuals, veterans and mature workers, coordinate special projects and initiatives with WIA ARRA Programs and identify, evaluate and track needs-related payments as required.

MCS will develop written procedures to monitor customized training programs and assure implementation.

Findings **Incomplete Fixed Assets and Equipment Listing**

Attached is the inventory list of Fixed Assets and Equipment assigned at the West San Gabriel Valley Worksource. Each item is completely tagged by Ms. Von Hart from CSS, County office.

Should you need additional information, please call my staff Tito Maturan at 213.355.5307

Philip Starr, Psy.D.
Executive Director