



JOHN NAIMO
AUDITOR-CONTROLLER

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

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October 17, 2014

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

FROM: John Naimo 
Auditor-Controller

SUBJECT: **HUB CITIES CONSORTIUM – A COMMUNITY AND SENIOR SERVICES' WORKFORCE INVESTMENT ACT PROGRAM CONTRACT SERVICE PROVIDER – CONTRACT COMPLIANCE REVIEW – FISCAL YEAR 2013-14**

We completed a review of Hub Cities Consortium (Hub Cities or Agency), a Community and Senior Services' (CSS) Workforce Investment Act (WIA) Program provider. Our review covered a sample of transactions from Fiscal Year (FY) 2013-14. The purpose of our review was to determine whether Hub Cities provided services in compliance with their County contracts and WIA requirements, and appropriately accounted for and spent WIA funds.

The Adult, Dislocated Worker (DW), and National Emergency Grant (NEG) WIA Programs assist individuals in obtaining employment, retaining their jobs, and increasing their earnings. The WIA Youth Program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 to 21 years.

CSS paid Hub Cities approximately \$4 million on a cost-reimbursement basis during FY 2013-14. Hub Cities serves participants residing in the First and Second Supervisorial Districts.

Results of Review

Hub Cities had documentation to support all 80 participants' eligibility for WIA services. However, Hub Cities billed CSS \$88,191 in questioned costs and did not always comply with County contract or WIA requirements. For example:

- Hub Cities billed CSS \$63,299 (\$32,940 + \$30,359) in unsupported legal consultant costs.

Hub Cities' attached response indicates that all documentation pertaining to the legal service fees were provided and that the legal services were for the administration of the WIA Programs. However, the documentation Hub Cities provided was incomplete and did not describe that the legal services provided were for the administration of the WIA Programs or consistent with the purpose and scope of the services contracted.

- Hub Cities' financial records did not support \$18,102 in NEG expenditures billed to CSS. Subsequent to our review, Hub Cities provided additional documentation to support \$12,183 of the \$18,102 in questioned costs, resulting in \$5,919 (\$18,102 - \$12,183) in questioned costs.

Hub Cities' attached response indicates that they concur with our finding and have since adjusted the overstated amounts. However, Hub Cities did not provide documentation to support the adjustments made for the overstated amounts.

- Hub Cities had 50 reconciling items, totaling \$3,665, over 90 days on their November 2013 bank reconciliation, of which \$2,871 related to the WIA Programs.

Hub Cities' attached response indicates that they will repay CSS \$2,871 in unpaid expenditures.

- Did not obtain criminal record clearances for three (60%) of the five WIA employees as required by Section 27.0 of the County contract.

Hub Cities' attached response indicates that they concur with our finding and obtained criminal record clearances for the three WIA employees. However, Hub Cities did not provide evidence that the criminal clearances for the three employees were obtained.

- Did not notify CSS within five business days of receiving a discrimination claim as required by Section 12.0(d) of the County contract.

Hub Cities' attached response indicates that they have reassessed their procedures to ensure the County will be notified within five business days of receiving any complaints.

- Did not provide documentation to support that three written quotes were obtained for their legal and security services contracts or that three verbal quotes were obtained for their insurance services contracts as required by WIA Directive D-DWA-00-037.

Hub Cities' attached response indicates that they will ensure services are procured in accordance to WIA guidelines.

- Did not accurately update the participants' activities on the Job Training Automation (JTA) System as required by WIA Directive LACOD-WIAD08-38 for five (10%) of the 50 Adult, DW, and NEG participants reviewed.

Hub Cities' attached response indicates that they concur with our findings and will ensure participants' activities are accurately updated in the JTA System.

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

Review of Report

We discussed our report with Hub Cities and CSS. Hub Cities' attached response indicates they agree with our findings and recommendations, except for issues related to their legal costs as noted above. Hub Cities did not provide adequate documentation to support that the legal services provided were for the administration of the WIA Programs or consistent with the purpose and scope of the services contracted.

We thank Hub Cities management and staff 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.

JN:AB:DC:EB:yp

Attachments

- c: William T Fujioka, Chief Executive Officer
- Cynthia D. Banks, Director, Community and Senior Services
- Jerry Gaines, Chair, Workforce Investment Board
- Richard Dell, Chair, Workforce Investment Board Finance Committee
- Maria Davila, Chairperson, Hub Cities Consortium
- Alberto Uribe, Executive Director, Hub Cities Consortium
- Public Information Office
- Audit Committee

**HUB CITIES CONSORTIUM
WORKFORCE INVESTMENT ACT PROGRAMS
CONTRACT COMPLIANCE REVIEW
FISCAL YEAR 2013-14**

ELIGIBILITY

Objective

Determine whether Hub Cities Consortium (Hub Cities or Agency) provided services to eligible individuals for the Workforce Investment Act (WIA) Programs.

Verification

We reviewed the case files for 80 (8%) of the 987 participants who received services from July 2013 through March 2014 for documentation to confirm their eligibility for WIA services.

Results

Hub Cities had documentation to support all 80 participants' eligibility for WIA Program services.

Recommendation

None.

BILLED SERVICES

Objective

Determine whether Hub Cities provided services in accordance with their County contracts and WIA guidelines.

Verification

We visited Hub Cities' service site, and reviewed the case files for 80 (8%) of the 987 participants who received services from July 2013 through March 2014.

Results

Youth Programs

Hub Cities did not complete the Form I-9, Employment Eligibility Verification as required by WIA Directive LACOD-WIAD11-03 for five (17%) of the 30 Youth Program participants reviewed. In addition, Hub Cities did not register one (3%) of the 30 Youth

Program participants reviewed into selective service within 30 days after his 18th birthday as required by WIA Directive LACOD-WIAD12-02. Subsequent to our review, Hub Cities provided completed Form I-9 for the five participants.

Adult, Dislocated Worker (DW), and National Emergency Grant (NEG) Programs

Hub Cities did not accurately update the participants' activities on the Job Training Automation (JTA) System as required by WIA Directive LACOD-WIAD08-38 for five (10%) of the 50 participants reviewed. The State of California Employment Development Department and the United States Department of Labor use the JTA System to track WIA participant activities. We noted similar findings during our prior monitoring review.

Recommendations

Hub Cities Consortium management:

- 1. Ensure Form I-9 is completed for Workforce Investment Act Program participants as required.**
- 2. Register male participants into selective service within 30 days after their 18th birthday.**
- 3. Ensure staff update the Job Training Automation System to accurately reflect participant activities.**

CASH/REVENUE

Objective

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

Verification

We interviewed Agency personnel and reviewed their financial records. We also reviewed the Agency's two bank accounts' activity and bank reconciliations for November 2013.

Results

Hub Cities recorded revenue properly and deposited cash receipts timely. However, Hub Cities did not resolve its reconciling items in a timely manner as required by Section B-1.4 of the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook). Hub Cities had 50 reconciling items, totaling \$3,665, over

90 days on their November 2013 bank reconciliation, of which \$2,871 related to the WIA Programs.

Recommendations

Hub Cities Consortium management:

- 4. Repay Community Senior Services \$2,871 for the unpaid expenditures.**
- 5. Ensure bank reconciling items are resolved timely.**

EXPENDITURES/COST ALLOCATION PLAN

Objective

Determine whether the Agency's Cost Allocation Plan (Plan) complied with their County contracts, and if expenditures billed to the WIA Programs were allowable, properly documented, and accurately billed.

Verification

We interviewed Agency personnel, and reviewed their Plan, and their financial records for 16 non-payroll expenditure transactions, totaling \$72,642, billed by the Agency from July through November 2013.

Results

Hub Cities prepared their Plan in compliance with their County contracts. However, Hub Cities billed Community and Senior Services (CSS) \$50,144 in questioned costs. Specifically:

- Hub Cities billed CSS \$30,359 in unsupported consultant expenditures from July through November 2013. According to Agency management, consultant expenditures were associated with legal services provided for a discrimination claim filed by a former WIA employee. However, Hub Cities did not provide adequate documentation to support that the legal services provided were consistent with the purpose and scope of the services contracted. Therefore, we could not determine whether the legal fees charged were appropriate and reasonable. In addition, Section 12.0(d) of the County contract requires Hub Cities to notify CSS within five business days of receiving a discrimination claim. However, at the time our review, Hub Cities management still had not notified CSS of receiving the discrimination claim.
- Hub Cities' financial records did not support \$18,102 in NEG expenditures billed to CSS. Specifically, Hub Cities billed CSS \$6,536 in supportive services and \$11,566 in On-Job-Training costs that were not supported by their general ledger.

Subsequent to our review, Hub Cities provided additional documentation to support \$12,183 of the \$18,102 in questioned costs, resulting in \$5,919 (\$18,102 - \$12,183) in questioned costs.

- Hub Cities billed CSS \$1,683 in prior year's expenditures in Fiscal Year (FY) 2013-14. According to Section C-1.2 of the A-C Handbook, expenses charged against program funds may not be incurred prior to the effective date of the agreement or subsequent to the agreement termination date. Subsequent to our review, Hub Cities credited \$1,683 to CSS in their subsequent month's invoices.

We noted similar findings during our prior monitoring review.

Recommendations

Hub Cities Consortium management:

6. **Repay Community and Senior Services \$36,278 (\$30,359 + \$18,102 + \$1,683 - \$12,183 - \$1,683) for unsupported expenditures, or provide adequate documentation to support the expenditures.**
7. **Determine the total additional unsupported consultant expenditures billed to Community and Senior Services from December 2013 through June 30, 2014, and repay Community and Senior Services, or provide adequate documentation to support the expenditures.**
8. **Notify Community and Senior Services within five business days of receiving a discrimination complaint as required.**
9. **Maintain adequate documentation to support the expenditures.**
10. **Ensure expenditures are billed in the correct contract period.**

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the Agency had adequate internal controls over its business operations. In addition, determine whether the Agency was in compliance with WIA Programs and other County contract administrative requirements.

Verification

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

Results

Hub Cities did not maintain adequate documentation to support \$2,676 in expenditure accruals reported to CSS as required by WIA Directive WIAD10-05. Subsequent to our review, Hub Cities provided additional documentation to support their reported expenditure accruals.

In addition, Hub Cities did not provide documentation to support that three written quotes were obtained for their legal and security services contracts, or that three verbal quotes were obtained for their insurance services contracts as required by the WIA Directive D-DWA-00-037.

Recommendations

Hub Cities Consortium management:

- 11. Maintain adequate documentation to support the reported expenditure accruals.**
- 12. Ensure services are procured in compliance with the Workforce Investment Act guidelines.**

PAYROLL AND PERSONNEL

Objective

Determine whether Hub Cities and participant employers appropriately charged payroll costs to the WIA Programs in accordance with their County contracts and WIA requirements. In addition, for the Agency's new employees assigned to the WIA Programs, determine whether the Agency obtained background clearances, verified employability, maintained proof of current driver's licenses, and maintained proof of automobile insurance.

Verification

We compared the WIA payroll costs for five employees, totaling \$22,148, and ten participants, totaling \$3,932, for November 2013, to the Agency's payroll records and time reports. We also reviewed the time reports for five employees and ten participants. In addition, we reviewed the personnel files for five new employees assigned to the WIA Programs.

Results

Hub Cities did not always comply with the WIA and County contract requirements. Specifically, Hub Cities:

- Did not obtain criminal record clearances for three (60%) of the five WIA employees as required by Section 27.0 of the County contract.
- Did not ensure that a one (10%) participant's payroll was appropriately charged to the WIA Program. Specifically, one time report indicated that the participant worked a seven hour shift without taking a lunch break. According to California Labor Code Section 512, an employer may not employ an employee for a work period of more than five hours per day without providing the employee with a meal period of not less than 30 minutes. Subsequent to our review, Hub Cities provided an affidavit from the employer indicating that the participant failed to record the lunch break and was overpaid for half an hour. Total questioned cost was immaterial.

In addition, Hub Cities did not allocate vacation, holiday, and sick days based on an equitable basis. Specifically, Hub Cities allocated and billed CSS hours evenly among all programs even though the staff did not work the same hours for all programs. Total questioned cost was immaterial. However, Hub Cities management should ensure that expenditures are equitably allocated to all benefiting programs.

Recommendations

Hub Cities Consortium management:

- 13. Obtain criminal record clearances for all Workforce Investment Act Programs employees.**
- 14. Verify the accuracy of the participants' time reports and ensure compliance with the California Labor Code.**
- 15. Ensure expenditures are equitably allocated to all benefiting programs.**

CLOSE-OUT REVIEW

Objective

Determine whether the Agency's FY 2012-13 close-out invoices for the WIA Programs reconciled to their financial records.

Verification

We compared Hub Cities' close-out invoices for FY 2012-13 to their financial records. We also reviewed a sample of expenditures incurred during FY 2012-13.

Results

Hub Cities billed CSS \$35,176 in questioned costs. Specifically, Hub Cities:

- Billed CSS \$32,940 in unsupported consultant expenditures in FY 2012-13. As previously mentioned, Agency management indicated that the consultant cost was associated with the legal services provided for a discrimination claim filed by a former WIA employee. However, Hub Cities did not provide sufficient documentation, such as, nature of the actual services provided, details as to time expended, canceled checks, consultant's work products, reports, and memos to support that legal services provided were consistent with the purpose and scope of the services contracted. Therefore, we could not determine whether the legal fees charged were appropriate and reasonable. As previously mentioned, Hub Cities management did not notify CSS within five business days of receiving the discrimination claim as required by Section 12.0(d) of the County contract.
- Did not provide receipt logs for participant bus tokens to support \$1,500 in supportive services expenditures billed to the WIA Programs.
- Did not provide adequate documentation to support \$736 in staff training expenditures billed to the WIA Programs. Subsequent to our review, Hub Cities provided additional documentation to support training expenditures.

Recommendations

Refer to Recommendations 8 and 9.

Hub Cities Consortium management:

- 16. Repay Community and Senior Services \$34,440 (\$32,940 + \$1,500 + \$736 - \$736) or provide documentation to support the expenditures.**
- 17. Determine the total additional unsupported consultant expenditures billed to Community and Senior Services in Fiscal Year 2012-13 and repay Community and Senior Services, or provide adequate documentation to support the expenditures.**



August 13, 2014

Alberto Uribe
Executive Director

Board of Directors

Pedro Acuña
Chairman

Gene Higgins
Vice-Chairman

Chris Garcia

María Gomez

Jorge Morales

María Santillan-Sosa

John Naimo, Acting Auditor-Controller
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 S. Figueroa Street, 8th Floor
Los Angeles, CA 90071
Attention: Yoon Park/Iscah Wang

Re: Hub Cities Consortium – A Community and Senior Services Workforce Investment Act Program Contract Service Provider – Contract Compliance Review – Fiscal Year 2013-2014.

Dear Mr. Naimo,

Serving residents of:

Redondo Beach

Costa Mesa

Huntington Park

Lynwood

Maywood

South Gate

Hub Cities Consortium is submitting a formal written response/corrective action plan in response to your August 5, 2014 email, pertaining to the Community and Senior Services' Workforce Investment Act Program Contract Service Provider - Contract Compliance Review Fiscal Year 2013-2014.

Hub Cities Consortium has provided services through the WIA Adult, Dislocated Workers, Youth and National Emergency Grant (NEG) programs. The agency is in compliance with County contracts and WIA requirements, and appropriately accounted for FY 2013-2014 WIA funds.

Our response is organized in such a way as to provide an explanation to each of the recommendations identified in your report.

We thank the County of Los Angeles Department of Auditor-Controller, Countywide Contract Monitoring Division for their cooperation and support during this corrective action plan process.

If you have any questions, please contact me at (323) 586-4716.

Sincerely,



Jorge Galvez
Financial Manager



HUB CITIES CONSORTIUM

Hub Cities Consortium, A Public Entity
Hub Cities Consortium - AC Corrective Action Plan - FY 2013-2014 WIA Program Monitoring Review - 8/13/2014
2677 Zoe Avenue • Second Floor • Huntington Park, CA 90255 • PHONE 323.586.4700 • FAX 323.586.4702 • www.hubcities.org

Billed Services - Recommendations

1. Hub Cities management ensures Form I-9 is completed as required activities.
2. Hub Cities management registers male participants into selective service within 30 days after their 18th birthday.
3. Hub Cities management ensures staff updates the Job Training Automation System to accurately reflect participant activities.

Recommendation 1 (Response): As stated in your report, HCC management provided completed Form I-9 for the five participants. HCC management will follow the WIA Directive LACOD-WIAD 11-03 and ensure that program participants complete the Employment Eligibility Verification (Form I-9).

Recommendation 2 (Response): The participant in question is a resident that was unable to register online due to his status. Individuals with certain type of status must submit a paper application in which the process takes much longer. The individual was registered by Selective Service 22 days after the 30th day recommendation. HCC current system enables us to capture youth that are eligible for selective service 30 days prior to their 18th birthday, but when an individual cannot apply online they must submit a paper application.

Recommendation 3 (Response): HCC management has updated the JTA System to accurately reflect the five participant's activities. We have set measures to capture and categorize the participants' program activity and procedures.

Cash/Revenue - Recommendations

4. Hub Cities management repays CSS \$2,871 for the unpaid expenditure.
5. Hub Cities management ensures bank reconciling item are resolved timely.

Recommendation 4 (Response): HCC management concurs with the recommendation and will repay CSS \$2,871 for the unclaimed checks.

Recommendation 5 (Response): HCC management will ensure that all unclaimed check items are resolved timely in accordance to policy.

Expenditures/Cost Allocation Plan - Recommendations

6. Hub Cities management repay CSS \$36,278 (\$30,359 + \$18,102 + \$1,683 - \$12,183 - \$1,683) for unsupported expenditures, or provide adequate documentation to support the expenditure.
7. Hub Cities management determined the total additional unsupported consultant expenditures billed to CSS from December 2013 through June 30, 2014, and repay CSS, or provide adequate documentation to support expenditures.
8. Hub Cities management notifies Community and Senior Services within five business days of receiving any complaint.
9. Hub Cities management maintains adequate documentation to support the expenditures.
10. Hub Cities management ensures expenditures are billed in the correct contract period.

Recommendation 6 (Response): HCC management provided all documentation pertaining to the legal service fees which included the Equal Employment Opportunity Commission (EEOC)-Notice of Charge of Discrimination; 2012-13 invoices for legal fees, and cancel checks, among other documents. The amount in question is arbitrary as the calculation basis for all invoices totaling \$30,359 is based on a one month allocation sample. Furthermore, there are costs that are associated with the administration of the WIA programs that are allowable.

During the audit review process, Hub Cities NEG sampled invoice reflected an overstated cost category amount, since the invoice sample was in an interim period, Hub Cities since has adjusted the overstated amount to reflect accurately.

Recommendation 7 (Response): HCC management will determine the total additional questioned cost for the 2013-14 fiscal year and provide adequate documentation to support the expenditures.

Recommendation 8 (Response): HCC management has reassessed it's procedures to adhere to the County policy of notify contractor within five business days of receiving any complaint.

Recommendation 9 (Response): HCC management will ensure to maintain adequate documentation to support all expenditures

Recommendation 10 (Response): HCC management credited the cost of \$1693 to CSS in the ensuing month's invoice. HCC management follows the WIA guidelines, ensuring that expenditures are administered and properly allocated. HCC management has reviewed and has established more efficient measures in its process.

Administrative Controls/Contract Compliance - Recommendations

11. Hub Cities management maintains adequate documentation to support the reported expenditure accruals.
12. Hub Cities management ensures services are procured in compliance with the WIA guidelines.

Recommendation 11 (Response): HCC management provided the Auditor Controller documentation to support the reported expenditure accruals in question. HCC management will continue adhering to the WIA guidelines pertaining to expenditure accruals.

Recommendation 12 (Response): HCC management will ensure that services are procured in accordance to WIA guidelines.

Payroll and Personnel - Recommendations

13. Hub Cities management obtains criminal record clearances for all WIA Programs employees.
14. Hub Cities management verifies the accuracy of all the participants' timecards and ensures compliance with the California Labor Code.
15. Hub Cities management ensures expenditures are equitably allocated to all benefitting programs.

Recommendation 13 (Response): HCC management have conducted and obtained the criminal record clearances for the three WIA employees as required by Section 27.0 of the County contract.

Recommendation 14 (Response): HCC management provided the Auditor Controller documentation to support the accuracy of the one participant's timesheet in question. HCC management adheres to the Federal Labor Code, the California Labor Code, and WIA guidelines pertaining to payroll mandates.

Recommendation 15 (Response): HCC management will ensure expenditures are equitably allocated to all benefitting programs.

Close-Out Review - Recommendations

16. Hub Cities management repays Community and Senior Services \$34,440(\$32,940 + \$1,500 + \$736 - \$736) or provides documentation to support the expenditure.
17. Hub Cities management determines the total additional unsupported consultant expenditure billed to CSS in FY 2012-13 and repays CSS, or provides adequate documentation to support the expenditures.

Recommendation 16 (Response): HCC provided all documentation pertaining to the legal service fees which included the Equal Employment Opportunity Commission (EEOC)-Notice of Charge of Discrimination; 2012-13 invoices for legal fees, and cancel checks, among other documents. The amount in question is arbitrary as the calculation basis for all invoices totaling \$32,940 is based on a one month allocation sample; furthermore there are costs that are associated with the administration of the WIA programs that are allowable.

HCC will provide log to support the supportive services questioned cost.

Recommendation 17 (Response): HCC will determine the total additional questioned cost for the 2012-13 fiscal year and provide adequate documentation to support the expenditures.