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February 19, 2015

TO: Sheryl L. Spiller, Director  
Department of Public Social Services

FROM: Don Chadwick *Don Chadwick*  
Division Chief

SUBJECT: **PATHWAYS LA – A DEPARTMENT OF PUBLIC SOCIAL SERVICES  
CALWORKS STAGE ONE CHILD CARE SERVICES PROGRAM  
PROVIDER – FOLLOW-UP REVIEW**

At the request of your Department, we completed a follow-up review of Pathways LA (Pathways or Agency). Our review evaluated the Agency's progress in implementing the recommendations from our February 7, 2014 monitoring report. Your Department contracts with Pathways, a non-profit organization, to operate the CalWORKs Stage One Child Care Services (Stage One) Program, which helps families access immediate, quality, and affordable child care as they move through their Welfare-to-Work activities. DPSS paid Pathways approximately \$3.1 million during Fiscal Year (FY) 2013-14. Pathways provides services to residents of the First, Second, Third, and Fifth Supervisorial Districts.

**Results of Review**

Our February 7, 2014 monitoring report contained nine recommendations. Our follow-up review determined that Pathways implemented seven (78%) recommendations, and partially implemented two (22%) recommendations. Details of our review, along with our original recommendations and their implementation status, are attached.

We discussed the results of our review with Pathways. The Agency's management indicated agreement with our findings and recommendations and they will work with DPSS to ensure that the partially implemented recommendations are implemented.

Sheryl L. Spiller, Director  
February 19, 2015  
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We thank Pathways management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Princess Nelson at (213) 253-0313.

DC:AA:pn

Attachment

c: John Naimo, Auditor-Controller  
Carla Buck, Board President, Pathways  
Duane Dennis, Executive Director, Pathways  
Audit Committee

**PATHWAYS LA  
CALWORKS STAGE ONE CHILD CARE SERVICES PROGRAM  
FOLLOW-UP REVIEW**

**EXPENDITURES**

**Recommendation 1**

Pathways LA (Pathways or Agency) management review and reallocate all shared expenditures charged to the CalWORKs Stage One Child Care Services (Stage One) Program during Fiscal Year (FY) 2012-13, provide the Department of Public Social Services (DPSS) with supporting documentation, and repay any overbilled amounts.

**Current Status: PARTIALLY IMPLEMENTED**

Pathways used allowable methods to reallocate the \$21,519 (\$18,053 non-payroll expenditures + \$3,466 payroll costs) in shared expenditures we noted were inappropriately allocated to the Stage One in our February 7, 2014 monitoring report. The Agency also revised their accounting records and repaid DPSS \$1,262 in overbilled expenditures. However, Pathways did not reallocate all shared expenditures charged to the Stage One Program during FY 2012-13, provide DPSS with supporting documentation and repay any additional overbilled amounts. The Agency indicated that they will work with your Department to fully implement this recommendation.

**Recommendation 2**

Pathways management ensure that all expenditures charged to the Stage One Program are allowable, properly documented, and accurately billed.

**Current Status: IMPLEMENTED**

We interviewed Pathways' personnel, and reviewed financial records for five expenditures, totaling \$10,283, that Pathways charged to the Stage One Program from March through April 2014. In addition, we traced the payroll costs for four employees, totaling \$3,029, for April 2014 to the Agency's payroll records and time reports. Pathways' expenditures were allowable, properly documented, and accurately billed.

**Recommendation 3**

Pathways management repay DPSS \$816 (\$544 + \$272).

**Current Status: IMPLEMENTED**

After our review, Pathways located \$544 in missing equipment. During our follow-up review, we completed a physical inventory of the equipment and verified the items

existed, and were being used by the Stage One Program. In addition, Pathways revised their FY 2012-13 accounting records to reflect a credit (repayment) of \$272 for the unallowable expenditures.

### **FIXED ASSETS AND EQUIPMENT**

#### **Recommendation 4**

Pathways management develop and maintain a complete and accurate listing of fixed assets and equipment purchased with Stage One Program funds and conduct semi-annual inventories of fixed assets and equipment.

#### **Current Status: IMPLEMENTED**

Pathways developed a complete listing of fixed assets and equipment purchased with Stage One Program funds, and is now conducting semi-annual inventories of fixed assets and equipment as required. During our follow-up review, we performed a physical inventory of five items purchased with Stage One Program funds and verified the items were accurately reported on Pathways' fixed assets and equipment listing, and were being used by the Stage one Program as required.

#### **Recommendation 5**

Pathways management develop procedures to track the disposal of fixed assets and equipment purchased with Stage One Program funds.

#### **Current Status: IMPLEMENTED**

Pathways implemented new procedures to properly track the disposal of fixed assets and equipment purchased with Stage One Program funds.

#### **Recommendation 6**

Pathways management obtain approval from DPSS to dispose of any fixed assets or equipment purchased with Stage One Program funds, or return them to DPSS as required.

#### **Current Status: IMPLEMENTED**

As discussed above, Pathways implemented new procedures to properly track the disposal of fixed assets and equipment. In addition, Pathways revised their policies to obtain approval from DPSS to dispose of any fixed assets or equipment purchased with Stage One Program funds, or to return them to DPSS as required.

## COST ALLOCATION PLAN

### Recommendation 7

Pathways management develop a Cost Allocation Plan (Plan) that complies with their County contract.

### Current Status: IMPLEMENTED

Pathways management developed a Plan that complies with their County contract.

## CLOSE-OUT REVIEW

### Recommendation 8

Pathways management revise their accounting records based on the recommendations above, provide DPSS with a revised close-out report for FY 2012-13, and work with DPSS to return or reinvest any unspent revenue.

### Current Status: PARTIALLY IMPLEMENTED

Pathways used allowable methods to reallocate the shared expenditures we noted were inappropriately allocated to the Stage One Program in our February 7, 2014 monitoring report, revised their accounting records, and repaid DPSS \$1,262 in overbilled expenditures. However, as noted above, Pathways still needs to reallocate all additional shared expenditures charged to the Stage One Program during FY 2012-13. After Pathways reallocates all additional shared expenditures charged to the Stage One Program during FY 2012-13, the Agency will need to revise their accounting records, provide DPSS with a revised close-out report for FY 2012-13, and work with DPSS to return or reinvest any unspent revenue. The Agency indicated that they will work with your Department to fully implement this recommendation.

### Recommendation 9

Pathways management repay DPSS \$4,181 for the disallowed child care provider payments.

### Current Status: IMPLEMENTED

Pathways repaid DPSS \$4,181 for the disallowed child care provider payments.