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December 7, 2006

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **INNOVATIVE EDUCATIONAL SYSTEMS, INC. CONTRACT - WORKFORCE INVESTMENT ACT PROGRAMS**

We have conducted a program, fiscal and administrative contract review of Innovative Educational Systems, Inc. (Innovative or Agency), a Workforce Investment Act (WIA) Program service provider.

Background

The Department of Community and Senior Services (DCSS) contracts with Innovative, a private non-profit agency, to provide and operate the WIA youth program. The WIA youth program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 to 21 years old. Innovative's office is located in the Second District.

Innovative is compensated on a cost reimbursement basis. Innovative was paid $40,669 for fiscal year 2005-2006. Innovative terminated the contract with DCSS as of December 31, 2005, due to financial difficulties.

Purpose/Methodology

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

accounting records, internal controls and compliance with federal, State, and County guidelines.

Results of Review

Innovative did not obtain documentation to support the program eligibility for two (25%) of the eight program participants sampled. Innovative billed DCSS $1,208 for direct costs incurred in providing services to the ineligible participants.

In addition, Innovative did not always complete the Individual Services Strategy (ISS) plans for each participant or discuss the ISS plans with the participants on a regular basis. The Agency also did not accurately update the Job Training Automation (JTA) system to report the program activities for six (75%) of the eight participants. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities.

Innovative did not maintain adequate controls over cash or disbursements, bond employees who handle or have access to funds, or maintain the appropriate insurance coverage.

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

Review of Report

Innovative cancelled their contract as of December 31, 2005, and is no longer providing WIA services. DCSS will have to ensure that Innovative implements the recommendations contained in this report prior to receiving another WIA contract.

We notified DCSS of the results of our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: David E. Janssen, Chief Administrative Officer
Cynthia Banks, Director, Department of Community and Senior Services
Rodney Brown, Executive Director, Innovative Educational Systems, Inc.
Public Information Office
Audit Committee

WORKFORCE INVESTMENT ACT PROGRAM
INNOVATIVE EDUCATIONAL SYSTEMS, INC.
FISCAL YEAR 2005-06

Innovative Educational Systems, Inc. (Innovative or Agency) cancelled their contract as of December 31, 2005, and is no longer providing WIA services. Therefore, the Agency will have to implement the recommendations contained in this report prior to receiving another WIA contract.

ELIGIBILITY

Objective

Determine whether Innovative provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We reviewed the case files for all eight (100%) program participants that received services between July 2005 and December 2005 for documentation to confirm their eligibility for WIA program services.

Results

Innovative did not obtain documentation to support the program eligibility for two (25%) of the eight program participants as required by WIA guidelines. Innovative billed the Department of Community and Senior Services (DCSS) $1,208 for direct costs incurred providing services to the ineligible participants.

Recommendations

Innovative management:

1. **Repay DCSS $1,208.**

2. **Ensure that staff obtain appropriate documentation from the participants to determine the participants' eligibility for program services prior to enrollment.**

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 program participants actually received the billed services.

Verification

We reviewed the documentation contained in the case files all eight program participants that received services during July 2005 and December 2005. We also interviewed two participants/guardians.

Results

The two participants/guardians interviewed stated that the services received met their expectations. However, Innovative did not complete the Individual Services Strategy (ISS) plans for two (25%) of the eight youth participants sampled. In addition, the Agency did not discuss the ISS plans with seven (88%) of the eight participants on a monthly basis as required. The ISS plans are used to track the needs and services of the program participants and their progress towards achieving established goals.

In addition, Innovative did not administer a pre-assessment for one (13%) of the eight participants, or administer a post-assessment within one year of the pre-assessment for a second (13%) participant. According to WIA guidelines, all youths enrolled in the youth program must be assessed for proficiency in basic skills and if the participant is assessed as basic skills deficient, a post-assessment must be administered within one year of the pre-assessment.

Innovative also incorrectly reported on the Job Training Automation (JTA) system six (75%) of the eight participants' program activities. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities.

Recommendations

Innovative management:

3. **Ensure that staff complete the ISS plans and discuss the ISS plans with the participants on a monthly basis.**

4. **Ensure that the pre-assessments and post-assessments are administered as required by the WIA guidelines.**

5. **Ensure that staff accurately update the JTA system to reflect the participants' program activities.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenues are properly recorded in the Agency's records and deposited timely in their bank account. 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 Innovative's bank reconciliation for December 2005.

Results

Innovative did not maintain adequate controls over cash. Specifically:

- Innovative did not require two signatures on the checks, or prohibit the check signer from signing their own expense checks.
- Innovative did not require that the bank reconciliations be completed by someone without check writing and bookkeeping functions, or require the preparer and reviewer to sign the bank reconciliations.
- Innovative did not conduct an inventory of all checks on a regular basis to ensure that all checks were accounted for.

Recommendations

Innovative management:

6. **Ensure that two signatures are required on all checks and prohibit the check signer from signing their own expense checks.**
7. **Ensure that the bank reconciliation is completed by someone without check writing or bookkeeping functions, and that the bank reconciliations are signed by both the preparer and reviewer.**
8. **Ensure that an inventory of all checks is conducted on a regular basis.**

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 for 13 (76%) of the 17 non-payroll expenditure transactions billed by the Agency for July, August and September 2005, totaling $2,600.

Results

Innovative's expenses were allowable, accurately billed to DCSS and supported by documentation as required.

Recommendation

There are no recommendations for this section.

INTERNAL CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the contractor 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

Innovative did not maintain adequate internal controls over its disbursements. Specifically, the Executive Director made purchases, had access to the accounting records, maintained the blank checks, and was the only authorized check signer. In addition, the Executive Director performed both the payroll and personnel duties and had access to both payroll and personnel records.

In addition, Innovative was not in compliance with the following County contract requirements:

- Innovative did not maintain crime coverage or bond the employees who handle or have access to funds. In addition, Innovative did not maintain professional liability or personal property insurance policies.

- Innovative's accounting and personnel policies and procedural manuals were incomplete. The accounting manual did not address such areas as bonding, cash management, reconciliation between subsidiary and official records. The personnel manual also did not include policies and procedures for performance evaluations.

- Innovative did not have the fire inspection certificate or a building permit.

- Innovative did not mark the invoices or other supporting documentation "paid."

- Innovative did not indicate in its press releases and statements to the public that, "the program is funded by the federal and State grant administered by the County of Los Angeles."

Recommendations

Innovative management:

9. **Ensure that there is adequate segregation of duties.**

10. **Ensure that employees who handle or have access to the Agency's funds are bonded.**

11. **Obtain the required level of insurance coverage.**

12. **Ensure that the Agency's accounting and personnel policies and procedures manuals are complete.**

13. **Obtain the fire and building inspections.**

14. **Ensure that invoices and other supporting documentation are marked "PAID."**

15. **Ensure that press releases and statements to the public indicate that, "the program is funded by the federal and State grant administered by the County of Los Angeles."**

FIXED ASSETS AND EQUIPMENT

The objective of this section is to determine whether Innovative'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 Innovative did not use WIA funds to purchase fixed assets or equipment.

PAYROLL AND PERSONNEL

Objective

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

Verification

We traced and agreed the payroll expenditures invoiced for three employees in July 2005, totaling $4,362 (100%) out of $4,362, to the payroll records and time reports and interviewed one employee.

Results

Innovative appropriately charged payroll expenses to the WIA program. However, Innovative refused to provide the personnel files requested. According to Agency management, the personnel files were no longer available for review since the Agency was closed as of December 31, 2005. As such, we did not perform the personnel file test work.

Recommendation

There are no recommendations for this section.

COST ALLOCATION PLAN

Objective

Determine whether Agency's cost allocation plan was prepared in compliance with the County contract and applied to program costs.

Verification

We reviewed Innovative's cost allocation plan and reviewed a sample of expenditures incurred by the Agency during July, August, and September 2005 to ensure that the expenditures were properly allocated to the Agency's appropriate programs.

Results

Innovative's cost allocation plan was prepared in compliance with the County contract and costs were appropriately allocated.

Recommendation

There are no recommendations for this section.