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DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

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: **GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA CONTRACT - WORKFORCE INVESTMENT ACT PROGRAMS**

We have conducted a program, fiscal and administrative contract review of Goodwill Industries of Southern California (Goodwill or Agency), a Workforce Investment Act (WIA) Program service provider.

Background

The Department of Community and Senior Services (DCSS) contracts with Goodwill, a private non-profit organization, to provide and operate the WIA Adult, Dislocated Worker, Adult Special Needs and Youth Programs. The WIA Adult, Dislocated Worker and Adult Special Needs Programs assist individuals obtain employment, retain their jobs and increase 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 old. Goodwill's offices are located in the First and Fifth Districts.

Goodwill is compensated on a cost reimbursement basis. Goodwill's contract was for $1,253,220 for Fiscal Year 2005-06.

Purpose/Methodology

The purpose of the review was to determine whether Goodwill 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

Goodwill billed DCSS $3,600 for services provided to one ineligible participant. Goodwill also charged the WIA Dislocated Worker Program $1,250 for training costs provided to a non-WIA participant.

In addition, Goodwill did not comply with the following WIA program requirements:

- Goodwill did not complete the Individual Employment Plans (IEP) for 8 (38%) of the 21 Adult, Dislocated Worker and Adult Special Needs program participants.

- Goodwill did not discuss the relationship between long-term career goals and the service plans with 9 (90%) of the 10 Youth program participants during their assessment.

- Goodwill did not discuss the Individual Services Strategy (ISS) plans with all 10 Youth program participants on a monthly basis.

- Goodwill did not accurately report the program activities for 8 (80%) of the 10 Youth program participants on the Job Training Automation (JTA) system.

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

Review of Report

We discussed our report with Goodwill on September 18, 2006. In their attached response, Goodwill concurred with our findings and recommendations. We also notified DCSS of the results of our review.

We thank Goodwill for their cooperation and assistance during this 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
Douglas H. Barr, President and CEO, Goodwill Industries of Southern California
Teri Kelsall, Vice President of Workforce & Career Development, Goodwill Industries of Southern California
Public Information Office
Audit Committee

WORKFORCE INVESTMENT ACT PROGRAM
GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA
FISCAL YEAR 2005-06

ELIGIBILITY

Objective

Determine whether Goodwill Industries of Southern California (Goodwill or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We reviewed the case files for 31 (8 from the Adult program, 8 from the Dislocated Worker Program, five from the Adult Special Needs program, and 10 from the Youth program) of the 249 program participants that received services from July 2005 through March 2006 for documentation to confirm their eligibility for WIA services.

Results

Goodwill did not obtain appropriate documentation for 5 (16%) of the 31 program participants to support the participants' eligibility to receive program services. Specifically, Goodwill did not obtain documentation to support the income and/or barrier requirements for all 5 of the Adult Specials Needs program participants.

Subsequent to our review, Goodwill provided the appropriate documentation to support the eligibility for four of the five ineligible participants. As such, Goodwill needs to repay $3,600 in training and supportive services provided to the one ineligible participant.

Recommendations

Goodwill management:

1. **Repay DCSS $3,600.**

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

BILLED SERVICES/CLIENT VERIFICATION

Objective

Determine whether Goodwill provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the program participants received the billed services.

Verification

We reviewed the documentation contained in the case files for 31 (12%) participants that received services during July 2005 through March 2006. We also interviewed 21 program participants to confirm the services Goodwill billed to the Department of Community and Senior Services (DCSS) were provided.

Results

Adult, Dislocated Worker and Adult Special Needs Programs

The 13 program participants interviewed stated that the services they received met their expectations. However, Goodwill did not complete the Individual Employment Plans (IEP) for 8 (38%) of the 21 Adult, Dislocated Worker, and Adult Special Needs participants. The IEP is an on-going plan jointly developed by the participant and the case manager that identifies the participants' employment goals, achievement objectives and the services needed to achieve their employment goals.

Goodwill also did not maintain a copy of certificates of completion for the training courses completed for one (5%) of the 21 participants, or contact one (5%) of the 21 participants on a monthly basis as required. The last documented contact with the participant was dated July 2005.

Youth Program

The eight Youth participants/guardians interviewed stated that the services received met their expectations. However, Goodwill did not discuss the relationship between long-term career goals and the service plans for nine (90%) of the ten Youth participants sampled as required. Goodwill also did not discuss the Individual Services Strategy (ISS) plans with all ten Youth participants on a monthly basis as required by WIA guidelines. The ISS plan is used to track the needs and services of the program participants and their progress towards achieving established goals.

In addition, Goodwill did not maintain adequate documentation to justify rewarding one youth with two tickets to attend a basketball game. The Agency stated that the donated tickets were provided to the youth as a reward (incentive) for attaining a predetermined milestone. Goodwill also did not maintain adequate documentation for the supportive

services provided to a second youth. The amount of unsupported expenditures totaled $52.

Goodwill also did not accurately report the program activities for eight (80%) of the ten Youth participants on the Job Training Automation (JTA) system. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities.

Subsequent to our review, Goodwill completed some of the IEPs and made some of the necessary data corrections in the JTA system.

Recommendations

Goodwill management:

3. **Repay DCSS $52 for unsupported expenditures.**

4. **Ensure that staff complete the IEPs for Adult, Dislocated Worker, and Adult Special Needs participants.**

5. **Ensure that certificates of completion are maintained in the participants' case file for training courses completed.**

6. **Ensure that staff contact the participants on a monthly basis.**

7. **Ensure that staff discuss the relationship between long-term career goals and the service plan with the Youth participants during assessment.**

8. **Ensure that staff discuss the ISS plans with the Youth participants on a monthly basis.**

9. **Ensure that staff obtain appropriate documentation to support incentives and supportive services provided to the participants.**

10. **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 Goodwill's bank reconciliation for February 2006.

Results

Goodwill maintained adequate internal controls to ensure that revenue is properly recorded and deposited in a timely manner. However, Goodwill only required two signatures on checks over $25,000. The County contract requires two signatures on all checks regardless of the check amount.

Recommendation

11. Goodwill management ensure that two signatures are obtained on all checks.

EXPENDITURES/PROCUREMENT

Objective

Determine whether the 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 to support 34 (34%) of the 99 non-payroll expenditure transactions billed by the Agency for November 2005 through January 2006, totaling $113,810.

Results

The Agency inappropriately charged the WIA program for the following:

- $1,250 for training costs provided to a non-WIA Dislocated Worker Program participant.
- $5,300 for training costs provided to two non-Special Needs WIA participants.
- $4,163 for training costs provided to three non-dislocated worker participants.

The County contract indicates that all costs incurred for ineligible program participants are the sole responsibility of the contractor. The County contract also prohibits the commingling of funds and requires a written waiver from DCSS to transfer funds between WIA programs.

Subsequent to our review, Goodwill reallocated the training costs to the correct WIA program for all five WIA participants and provided additional information to support the travel expenses. However, Goodwill needs to repay $1,250 for training costs provided to the non-WIA participant and $550 for training costs that exceeded the program budget after they reallocated the cost appropriately.

Recommendations

Goodwill management:

12. **Repay DCSS $1,800.**

13. **Ensure that each WIA program is charged appropriately and obtain permission from DCSS prior to transferring funds from one program to another.**

14. **Ensure that expenses are adequately supported.**

INTERNAL CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the contractor maintained sufficient internal controls over its business operations. In addition, to 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

Goodwill did not comply with all County contract requirements. Specifically, Goodwill did not:

- Adequately monitor a subcontractor to ensure that sufficient training was provided to the program participants as required. This was also noted in the prior year's monitoring report.

- Mark the invoices and other supporting documentation as "paid." This was also noted in the prior year's monitoring report.

- Indicate on press releases and statements to the public that the program was funded by a federal or State grant administered by the County of Los Angeles as required. This was also noted in the prior year's monitoring report.

Subsequent to our review, Goodwill provided drafts of the Agency's monitoring guides, which will be used to monitor the subcontractors, and modified its press releases and statements to the public as required.

Recommendations

Goodwill management:

15. **Complete the monitoring guides and ensure that the subcontractors are adequately monitored to ensure that the services are being properly provided to program participants.**

16. **Ensure that invoices and other supporting documentation are marked "paid."**

17. **Ensure that future press releases and statements to the public indicate that, "the program was funded by federal or State grants administered by the County of Los Angeles."**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Goodwill's fixed assets and equipment purchases made with WIA funds are used for the WIA program and are safeguarded.

Verification

We interviewed Agency personnel and reviewed the Agency's equipment inventory listing. In addition, we performed an inventory and reviewed the usage of 10 (6%) of the 158 items purchased with WIA funds. Goodwill did not purchase the items but were inherited from another Agency whose contract with DCSS was terminated.

Results

Goodwill used the equipment purchased with WIA funding for the WIA program. In addition, the items were appropriately safeguarded.

Recommendation

There are no recommendations for this section.

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 expenses for nine employees, totaling $28,646, to the payroll records and time reports for January 2006. We also interviewed two staff assigned to the WIA program and reviewed personnel files for five staff assigned to the WIA program.

Results

Goodwill billed DCSS for one employee's salary based on the prior months' payroll allocations instead of actual expenditures incurred. Specifically, the employee's January 2006 timecard indicated that the staff worked 10% of their time on the Adult Special Needs program, 50% on the Adult program, and 40% on the Dislocated Worker program. However, Goodwill billed DCSS 55% of the employee's time to the Adult program, 45% to the Dislocated Worker program, and 0% to the Adult Special Needs program as billed in the prior months' payroll allocation. The County contract requires the contractor to request reimbursement for actual expenditures incurred during the program year.

Subsequent to our review, Goodwill reallocated payroll expenses to the correct funding sources.

Recommendations

Goodwill management:

18. **Ensure that the payroll expenses are allocated to the appropriate program.**

19. **Ensure that the request for reimbursement is for actual expenditures incurred during the program year.**

COST ALLOCATION PLAN

Objective

Determine whether Goodwill's Cost Allocation Plan was prepared in compliance with the County contract and applied to program costs.

Verification

We reviewed Goodwill's Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency during November 2005 through January 2006 to ensure that the expenditures were properly allocated to the Agency's appropriate programs.

Results

As previously indicated, Goodwill's training and payroll costs were not appropriately allocated. Therefore, we recommended that Goodwill management ensure that each WIA program is charged appropriately and that the payroll expenses are allocated to the appropriate program.

Recommendations

There are no recommendations for this section.

Goodwill
Southern California

October 10, 2006

Mr. J. Tyler McCauley
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Los Angeles, CA 90012-2766

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Response to Review by County for WIA Contract #'s 20023 – Special Needs, 20009 – Adult, 20050 – DW and 20078 – Youth

Dear Mr. McCauley,

This letter serves as Goodwill Industries of Southern California's response to the Auditor – Controller's letter based on discussions with Yoon Bae, Senior Accountant-Auditor, on September 18, 2006.

ELIGIBILITY

Recommendation:

1. Repay DCSS $3,600
2. Ensure that staff obtain the appropriate documentation from the participants to determine the participants' eligibility for program services prior to enrollment.

Response:

1. Goodwill agrees to pay DCSS $3,600.
2. All files will be reviewed by center's management to insure that Eligibility Documentation is in file. A file review process will be incorporated in the new processes and procedure policy for the center. Also continues in house training regarding eligibility for each funding stream and documentation required to provide services.

BILLED SERVICES/CLIENT VERIFICATION

Recommendation:

1. Repay DCSS $52 for unsupported expenditures.
2. Ensure that staff complete the IEP for Adult, Dislocated Worker, and Adult Special Needs participants.
3. Ensure that staff certification of completion is maintain in the participant's case file for training courses completed.
4. Ensure that staff contact the participants on a monthly basis as required.
5. Ensure that staff discuss the relationship between long-term career goals and the service plan with the Youth participants during assessment.
6. Ensure that staff discuss the ISS plan with the Youth Participants on a monthly basis.
7. Ensure that staff obtain appropriate documentation to support incentives and supportive services provided to the participants as required.

8. Ensure that staff accurately update the JTA system to reflect the participants' program activity.

Response:

1. Goodwill agrees to repay the $52.
2. For the Adult, Dislocated and Special Needs grants all new files will be reviewed by center manager to verify that they include an Individual Service Plan. All Employment Service Representatives will receive training in completing IEP as well as making sure that the goals and objective areas are completed. Goodwill Industries has a policy to make sure that all customer files include two case notes per month an all staff responsible for files will be held accountable to this policy.
3. For all customers that attend and complete trainings, management will ensure that copies and all necessary documentation are in the file.
4. Goodwill has procedures to ensure that participants are contacted monthly.
5. Staff will address long term career goals with customers and their parents when possible and will create a case note to reflect the discussion.
6. Staff will address the ISS with customers one time per month. This will take place during a scheduled meeting designed to review customer's progress and accomplishments.
7. A youth council shall be created and composed of youth enrolled in the program and staff. This council will meet weekly and will be responsible for community participation such as volunteering, participating in job fairs and will also receive first choice on incentives and rewards. The leadership activity "Code 73" will be reported only for the customer's who wish to be part of the center's youth council. A certificate of completion will be awarded to each member upon exit from the program. Customers will be asked to write essays on every workshop they receive for leadership development. The creation of the youth council, and other youth activities attendance such as basic skills class and work readiness workshops will be used as an indicator to provide future incentive.
8. Staff will enter all JTA activities in a timely manner and will update them as customers achieve goals.

CASH/REVENUE

Recommendation:

9. Goodwill management ensure that two signatures are obtained on all checks.

Response:

9. Goodwill changed this policy in early 2006 to reflect that all Accounts Payable and manual payroll checks require two signatures. In October 2006, Goodwill outsourced the payroll check processing to an independent third party, ADP. ADP's only requires one signature on all checks processed out of ADP's own bank account not Goodwill's. Please note that Goodwill has an extensive and segregated review process over all payments, including payroll.

EXPENDITURES/PROCUREMENT

Recommendation:

10. Goodwill agrees to pay DCSS $1,800.
11. Ensure that each WIA program is charged for related expense and obtain permission from DCSS prior to transferring funds from one program to another.

12. *Ensure that expenses are adequately supported.*

Response:

10. Goodwill agrees to repay $1,800.
11. Program employees have been notified of this coding error and will be more diligent with this process. In addition, Goodwill's Grants & Contracts department will be auditing the coding of invoices for participant related costs for all programs. This will be a process to help ensure accuracy of the participants being charged to the correct program.
12. Goodwill requires supporting documentation for all expenses before processing payment. With respect to the finding for mileage reimbursement, Goodwill has implemented a new expense reimbursement form that will request an odometer reading for mileage reimbursement as required by the County. Please note that the Goodwill Business Office and Supervisors review travel mileage for reasonableness and require locations of travel to be indicated on expense reimbursement forms. Odometer readings were the only information previously not requested.

INTERNAL CONTROLS/CONTRACT COMPLIANCE

Recommendation:

13. Complete the monitoring guides and ensure that the subcontractors are adequately monitored to ensure that the services are being properly provided to program participants.
14. Ensure that invoices and other supporting documentation are marked "paid."
15. Ensure that future press releases and statements to the public indicate that, "the program was funded by federal or State grants administered by the County of Los Angeles."

Response:

13. Goodwill to complete the monitoring guides by and will ensure that the subcontractors' services are being properly provided to program participants. Goodwill is expected to complete an independent audit of subcontractor's by the end of the year and will incorporate a formal program review of the subcontractor's services at least once a year. Currently, Goodwill informally reviews the quality of *services provided by the subcontractors.*
14. The Grants and Contracts department has been marking all invoices processed for payment as "PAID" at the time of payment beginning April 2006.
15. As indicated, all materials for the public and press releases have been updated to reflect the program funding statement.

FIXED ASSETS & EQUIPMENT

No Recommendations.

PAYROLL AND PERSONNEL

Recommendation:

16. Ensure that the payroll expenses are allocated to the appropriate program.
17. Ensure that the request for reimbursement is for actual expenditures incurred during the program year.

Response:

16. The timesheets were reviewed from November 2005 to March 2006 to see if this error was ongoing. In reviewing the above mentioned months, it was noted that one individual's time spent was misallocated due to an oversight. The time spent for this employee changed for the last payroll in December and for the month of January. The remaining months were allocated correctly and agree to employees timesheets. There was no net financial funding impact as a result of this reallocation.
17. Goodwill does request for reimbursement for actual expenditures within a program year and requests reimbursement of salaries and wages are based on actual employee's time spent. Due to an oversight, the change in the employee's timesheet was overlooked. Goodwill makes every effort to ensure accuracy in the allocations.

COST ALLOCATION PLANS

No Recommendations.

Regards,

Teri Kelsall, VP

Teri Kelsall
Vice President, Workforce Career Development