COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
3rd Floor Bertolino Building
Harrisburg, Pennsylvania 17105-2675

APR 24 2007

JOHN H. BUNGO, CGFM, CFS
DIRECTOR

TELEPHONE NUMBER
(717) 787-9200
FAX NUMBER
(717) 705-6334

Mr. Dale Porter
Chief Financial Officer
Philadelphia Workforce Development Corporation
1617 JFK Boulevard, 13th Floor
Philadelphia, Pennsylvania 19103

Dear Mr. Porter:

I am enclosing the final report of Philadelphia Workforce Development Corporation (PWDC), recently completed by this office. Your response has been incorporated into the final report and labeled as Appendix.

I would like to express my appreciation to all the courtesy extended to my staff during the course of fieldwork. I understand that Chenora Burkett was especially helpful to Barbara Miller in expediting the audit process.

The final report will be forwarded to the Department's Office Income Maintenance (OIM) to begin the Department's resolution process concerning the report contents. The staff from the OIM may be in contact with you to follow-up on the action taken to comply with the report's recommendations.

If you have any questions concerning this matter, please contact Richard Polek, Audit Resolution Section at (717) 787-8890.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Enclosures

cc: Ms. Kathy Yorkievitz
Mr. Karl Hoffman
Mr. John Vogel
Mr. Thomas George
Ms. Sandi Vito
Mr. Jeffrey Bechtel

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JOHN H. BUNGO, CGFM, CFS
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TELEPHONE NUMBER
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Ms. Sandi Vito
Deputy Secretary for Workforce Development
1700 Labor and Industry Building
Seventh and Forster Streets
Harrisburg, Pennsylvania 17121

Dear Ms. Vito:

Attached for your review is the final performance audit report of the Philadelphia Workforce Development Corporation (PWDC) as prepared by the Division of Audit and Review (DAR). The report covers the period July 1, 2005, through April 30, 2006. The Bureau of Financial Operations (BFO) focus was limited to administrative costs charged to both the Department of Public Welfare (DPW) and the Department of Labor and Industry (L&I). This report contains six issues and an observation.

Please contact Richard Polek, Audit Resolution Section, at (717) 787-8890 if you have any questions concerning the final report.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Enclosures

cc: Ms. Kathy Yorkievitz
Mr. Karl Hoffman
Mr. John Vogel
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JOHN H. BUNGO, CGFM, CFS
DIRECTOR

TELEPHONE NUMBER
(717) 787-9200
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(717) 705-6334

Ms. Kathy A. Yorkievitz
Deputy Secretary
Office of Income Maintenance
Room 432 Health & Welfare Building
P.O. Box 2675
Harrisburg, Pennsylvania 17105

Dear Ms. Yorkievitz:

In response to a request from the Office of Income Maintenance (OIM), the Bureau of Financial Operations (BFO) performed an audit of the Philadelphia Workforce Development Corporation (PWDC) for the period July 1, 2005, through April 30, 2006. The audit was a joint effort conducted in conjunction with the Office of Budget, Labor, Education and Community Services Comptroller's Office (LECS). The BFO's focus was limited to administrative costs charged to both the Department of Public Welfare (DPW) and the Department of Labor and Industry (L&I).

The mission of the BFO, accomplished through audit and review activities, is to assist DPW management to administer human service programs of the highest quality, at the lowest cost, with integrity.

Results In Brief

- Administrative costs are understated approximately by $1.3 million due to expenses generally considered administrative being charged as program expenses and the reclassification of senior management and vice president positions to 100% administration.

- PWDC does not have a written cost allocation plan documenting how costs are allocated to either administration or program, and to the various grants.

- Due to the inconsistent application of cost allocation time studies, a recommendation to implement a simplified cost allocation plan is presented.

- The accounting method applied to program income was not in compliance with the Financial Management Technical Assistance Guide (TAG).

Background

PWDC is a non-profit corporation established in 1979. PWDC contributes to strengthening the regional economy by developing a well trained workforce, and promoting opportunities for job seekers and employers through quality workforce development activities. Additionally, the Mayor of Philadelphia has appointed PWDC to be the fiscal agent for the Local Workforce Investment Area (LWIA).

The PWDC receives state grant funding from both DPW and L&I. The DPW funds flow through L&I to PWDC. The PWDC has two primary service areas, Transitional Workforce Division (TWD) which directs the DPW programs and the Workforce Services Division (WSD) which directs the Workforce Investment Areas (WIA) program funded by L&I.

The TWD provides various services including specialized training, paid work experience, specialized work services, and services for teens and unwed parents. Additionally, under the TWD there are EARN centers where the County Assistance Office (CAO) refers clients for various job seeking and training services. Services provided under TWD are only available to TANF eligible recipients.

The WSD provides similar services as those provided under TWD; however, with the exception of access to computer resources at the CareerLink centers, no services are provided to TANF recipients. The WSD operates several CareerLink centers throughout Philadelphia where individuals looking for employment may come. Each CareerLink consists of partners that offer job search and placement services, training, counseling and networking opportunities. The partners at the various CareerLinks include Bureau of Workforce Development Programs (BWDP), Office of Vocational Rehabilitation (OVR), PWDC, Veterans Employment and Training Services (VETS), and Office of Unemployment Compensation.

While the CareerLinks provide services to non-TANF recipients, DPW is a partner in the CareerLink with regard to funding the costs associated with the Consortium. The CareerLink Consortium consists of four employees, including the Director, who oversee the operations of the CareerLinks. The Consortium also has a non-paid board, which oversees its' operations. The board is comprised of a member from each of the following organizations: DPW, BWDP, Office of Vocational Rehabilitation (OVR), local Chamber of Commerce, and PWDC.

Costs associated with a CareerLink are split between the partners at each location through a Resource Sharing Agreement (RSA). The RSA is an agreement between each partner that governs the distribution of expenses and revenues. Additionally, some CareerLink centers also have members. CareerLink members are organizations or businesses that share the CareerLink space and provide job opportunities or training to the individuals using the CareerLink. These members usually pay a rental fee for the use of the CareerLink space.

Background (Continued)

PWDC's overall revenue allocation for fiscal year ended June 30, 2006, was $142,271,573, of which DPW funded 72.9% or $103,708,027. The remaining allocation was primarily funded with WIA funds through L&I.

The regulations governing PWDC's funding are the Master Guidelines as issued by DPW, which are based on the federal regulations for TANF, Office of Management and Budget (OBM) Circular A-122, and the Commonwealth TAG, which is based primarily on the federal regulations for the Workforce Investment Act.

Objectives/Scope/Methodology

The objectives of BFO's audit were:

- To determine if the PWDC's cost allocation plan effectively allocates costs to the benefiting cost objectives/categories/funding source and determine if the methodology is in compliance with all applicable regulations and program guidelines.

- To determine if the PWDC's current RSA's have been approved and adequately distributes costs to all partners.

In pursuing these objectives, the BFO reviewed internal accounting and financial records and specific expenses charged to administration. However, a portion of administrative costs were charged as both administration and program within cost categories resulting in a limited review of program costs as they relate to administration. The overall review of contracted services (program costs) was not included in the scope of the BFO audit.

Additionally, based in an agreement with L&I, BFO reviewed the RSA's. In so doing, various income and expense items were reviewed, CareerLink staff were interviewed and a tour of one of the centers was conducted.

Costs charged to administration were reviewed to determine the validity and appropriateness of the expense. Additionally, testing of the allocation methodology was conducted. The review of the allocation methodology included a review of quarterly time studies, analysis of salary allocation and review of selected job descriptions. Finally, BFO conducted interviews with PWDC management and staff, and with DPW personnel.

Objectives/Scope/Methodology (Continued)

Government auditing standards require that we obtain an understanding of management controls that are relevant to the audit objectives described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of compliance with generally accepted accounting principals. Based on our understanding of the controls no significant deficiencies came to our attention other than those described in Issues one through five of this report.

The BFO's fieldwork was conducted intermittently between June 1, 2006, and September 7, 2006, and was performed in accordance with generally accepted government auditing standards. This report, when presented in its final form, is available for public inspection.

Separate reports will be issued by the BFO and LECS audit organizations. Each report will address the individual organizations area of responsibility.

Results Of Fieldwork

As presented in Issues No. 1, 2, 3, and the Observation, there were shortcomings with PWDC cost allocation process. Pertaining to the RSA's and CareerLinks, the agreements were all approved and expenditures were distributed consistent with the agreements.

Issue No. 1 - Reported Administrative Costs Are Understated

Staff positions having job duties and functions that DPW would generally consider administrative are classified as program per the DPW Master Guidelines and Labor and Industry's TAG. PWDC uses these guidelines to classify and report administrative costs to the various DPW and WIA grants. This results in staff providing administrative services being charged to the grants as a program expense. We determined that if

positions having duties and functions that would usually or customarily be considered as administrative were classified correctly, administrative costs reported to the DPW and WIA grants for the ten month period ended April 30, 2006, would increase by up to $1.3 million (see Exhibit). Furthermore, the ten month total when annualized increases to $1.6 million. The increase in administrative costs would still be within the 10% allowable administrative cost limit per TAG and Master Guidelines provided contracted service expenses are included in the calculation.[1]

[1] Master Guidelines propose reducing the administrative CAP from 15% to 10% effective July 1, 2006.

Results Of Fieldwork (Continued)

Positions Customarily Considered Administrative Are Charged To Grants As Program

We have identified a number of positions and departments that would generally be considered as administrative, but whose costs have been charged to the DPW and WIA grants in part or total as program expense. For example, the three executive department positions of Director of Community Affairs, Director of Government Affairs, and Director of Communications all report to the CEO, provide services that benefit all departments, and have job functions and activities that appear to be general administrative in nature. However, the amount of their time considered administrative for cost allocation purposes is 70%, 0%, and 30% respectively. The PWDC has classified these positions as all or part program because their functions are not specifically delineated as administrative per Master Guidelines and TAG.

Change in Classification of Vice-President and Senior Management Positions to Administrative Will Substantially Increase Administrative Costs

The Master Agreement, in effect as of July 1, 2006, states "any function relating to oversight and monitoring" is administrative, however, the guidelines do not specifically identify a Vice-President or related position as administrative.[2] Per recent agreement between the DPW OIM Bureau of Employment and Training Programs (BETP) and PWDC, Vice-President and related Senior Management positions providing DPW funded services will be classified as 100% administrative. Prior to the recent time study conducted by PWDC in May and June 2006, the position of Vice-President was considered a partial or total program position in some departments. The prospective annual impact of the above change will increase administrative costs by up to $590,000. This amount has been factored into the $1.3 million administrative cost understatement (see Exhibit).

Also per agreement with BETP, the contract compliance department, which PWDC considers as 100% program, will be classified as 100% administrative. The prospective annual impact of this change will increase administrative costs by $295,000. This amount has also been factored into the total.

Certain Job Descriptions Are Generic and Do Not Accurately Reflect Specific Job Functions

A review of job descriptions identified certain descriptions where we were unable to determine an accurate classification. We noted the following two issues:

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[2] Master Guidelines for fiscal year 2006-07 defines any function related to oversight and monitoring as an administrative cost.

Results Of Fieldwork (Continued)

- Job descriptions for positions identified as administrative technician and administrative officer are generic, and do not sufficiently reflect the specific duties or functions being performed. Additionally, for like job description positions of administrative technicians/officers which provide administrative services, the percentage of time allocated to administration and program may vary based on the assigned department. If PWDC can not specifically document that these individuals perform duties that are program specific the administrative technician/officer positions should be classified as administrative costs.

- Job descriptions for some positions have not been updated to identify variances among duties and responsibilities, of similar job classifications, that are significant to the allocation of these costs.

Recommendations

The BFO recommends the BETP review and update as necessary Master Guidelines Section X (G) (4) (a) – administrative costs to clearly define the functions and classifications that should be defined as an administrative cost under the more restrictive governing guidelines.

Any revision should be transmitted to PWDC and all LWIA programs to ensure consistent and accurate reporting of administrative costs charged to all funding sources. Revisions to the Master Guidelines should also be reviewed with L&I for possible inclusion in the TAG. This would allow consistent reporting of administrative costs by both departments.

The BFO also recommends PWDC continue to implement revisions to the administrative cost classification as agreed and required.

Finally, the BFO recommends PWDC periodically review job descriptions to ensure they are updated for a change in duties or function, and they identify the specific functions being performed, especially for generic job descriptions. This could be completed as part of the employee annual evaluation process.

Issue No. 2 - PWDC Does Not Have A Written Cost Allocation Plan

PWDC does not have a written Cost Allocation Plan (CAP) that documents the process used to allocate costs between the administration and program cost categories and between the various DPW and WIA grants. The methodology used by PWDC is not in compliance with OMB Circular A-122 or the TAG. Without appropriate documentation the validity and appropriateness' of the allocations cannot be determined.

Results Of Fieldwork (Continued)

According to PWDC management costs are allocated based on quarterly time studies. An analysis of the documentation available indicates that these time studies are not completed as regularly as management indicated (see Issue No. 3). The inconsistency identified in the time study process is very significant in light of the regulatory requirement that time studies be completed monthly.

Recommendations

The BFO recommends PWDC document its actual CAP and include the plan as part of its policies and procedures.

The BFO also recommends PWDC complete its time studies in a more timely manner to comply with applicable guidelines.

Finally, the BFO recommends that if PWDC is unable to fully comply with applicable guidelines regarding time studies, they should pursue approval for using a more simplified allocation methodology.

Issue No. 3 - The Time Study Process Used To Support Cost Allocation Is Not Documented, And Does Not Comply With Federal And State Guidelines

The PWDC uses the results of a time study to allocate costs between administrative and program cost categories, and between the various DPW and WIA grants. The process used to perform the time study and the use of the results to allocate costs to the grants is not documented. Our review of the time study process identified the following deficiencies:

- The time study does not comply with requirements of OMB Circular A-122 and the TAG.

- Only the results of the most recent time study are used to allocate cumulative costs to the grants, resulting in one allocation each fiscal year. This negates the results of prior quarter time studies.

- The time study appears to consider available revenue and historical data from prior studies as factors in allocating time.

Results Of Fieldwork (Continued)

As a result, a significant amount of time, effort and cost is directed towards a process that does not comply with regulations, is not used as a basis to allocate costs until year-end, and ultimately considers revenue and prior studies as factors in allocating time. As an alternative, the PWDC needs to consider the use of a simplified method to allocate costs.

Non-Compliance With Regulations

The time studies do not comply with requirements of OMB Circular A-122 and the TAG in the following areas:

- PWDC employees do not complete a monthly time study as required by OMB Circular A-122, Attachment B, Paragraph 7(m). PWDC management has stated the time studies are completed quarterly, and it would be time and cost prohibitive to conduct monthly. The results of our review leads us to believe that the studies are not always completed quarterly, and/or the results are not used each quarter. We provide the following:
    - Information provided through interview of select sampled employees identified time studies were performed less frequently than on a quarterly basis.
    - The BFO reviewed 18 time studies for the months of June and September 2005. We noted that for the six time studies that were dated, the study was not completed until an average of three and one-half months after the sample period. Time studies completed months after the allocation period become less accurate as staff must recall what work was performed during the review period. The three and one-half month delay also indicates the results were not used to allocate costs to the grants during the three month period prior to the date of employee signature.
- The time studies only require the signature of the employee. The time study does not include the signature of the employee's immediate supervisor as required by TAG. This requirement takes on added importance in the PWDC process since the time study is not completed by the employee, but by the controller and senior managers of each department. The signature of the employee on the time study is indicated to be verification of the accuracy of the results.
    - A review of 18 time studies for the months of June and September 2005, identified seven of the 18 time studies were not signed at all either by the employee or supervisor.

Results Of Fieldwork (Continued)

Time Sheets Study Results Not Sole Factor Used for Cost Allocation

- The sample of April 2006 time studies for executive department employees whose efforts support all departments, identified that the time allocated to the major DPW programs and grants closely matched available revenues. Interviews with employees who work on all aspects of the agency also confirmed that revenue, along with prior period results, are factors in allocating time.

Recommendations

The BFO recommends the PWDC change the method used to allocate costs from the current time studies to a simplified method that could use either revenue or expenditure as the basis to allocate costs. This would result in an annual review of the CAP and eliminate the quarterly time study. The election to retain the time study as the means to allocate costs would require the process to be in compliance with federal and state requirements.

The BFO also recommends the PWDC discuss the simplified methods with the DPW and L&I program offices to ensure the method chosen is equitable and acceptable to both departments. Regulations require a simplified CAP be approved by both DPW and L&I.

Issue No. 4 - Program Revenue Was Not Accounted For In Compliance With Regulations

PWDC's accounting for program income is not in compliance with the TAG. Program revenue earned can be classified in two categories: Other Program Revenue and CareerLink member fees.

The TAG addresses the reporting of program income and requires the following:

- All program income must be reported monthly on the appropriate Financial Status Report (FSR).

- Program income should be expended before requesting additional cash draws.

- When authorized, program income may be added to the funds committed to the grant agreement.

Results Of Fieldwork (Continued)

Other Program Revenue

Included within this category are funds paid to PWDC by CareerLink partners, small pass through grants, and miscellaneous revenue. PWDC records this revenue when earned but does not report this revenue on the FSR nor is it used reduce monthly expenditures.

- For example, PWDC incurs operating costs for a particular CareerLink site. Each partner reimburses PWDC their agreed upon share of these costs. The operating costs are charged against WIA funds when incurred; but, the income is not applied and reported until year end.

As indicated above, this method is not appropriate. The process of applying and reporting program revenue should occur monthly.

CareerLink Member Fees

As described, the CareerLinks have partners who share the cost of operating the centers and they have members who share the space and pay rent. For purposes of this report, rent paid by members will be referred to as member fees.

CareerLink partners have formed a Consortium to govern the Philadelphia WIA CareerLinks. As fiscal agent, PWDC receives, accumulates, and disburses member fees. As of the close of the 2005-2006 fiscal period $93,048 in member fees remained undisbursed.[3] In order for PWDC to retain and disburse the member fees, as has been the custom, a written agreement should have been implemented by all CareerLink partners. Without such an agreement, member fees must be distributed to all partners in the same proportion as expenses per each RSA.

PWDC management has indicated that there will be a written agreement in place for the 2006-2007 fiscal period. As of the close of fieldwork the agreement had not been fully executed. Pertaining to prior periods, all CareerLink partners have operated under an understanding that the Consortium could make the determination on how to distribute the members fees.

[3] Certain WIA grant funding can extend through more than one fiscal period.

Results Of Fieldwork (Continued)

Addition Method For Program Income

The TAG allows program income generated by the CareerLink partners to be added to the funds committed to the grant agreement. However, prior authorization must be received and program income can only be used for the purposes and conditions of the grant agreement. PWDC management has indicated they will pursue using this method for future accounting of program income.

Recommendations

The BFO recommends that program income be reported monthly on the FSR as required by the TAG.

The BFO also recommends PWDC seek approval if it elects to use the addition method to account for program income. Additionally, program income must only be used for the purposes and conditions of grant agreement.

The BFO further recommends that the agreement pertaining to member fee distribution be executed.

Finally, the BFO recommends PWDC petition the appropriate program offices to be permitted to distribute their portion of member fees as directed by the Consortium.

Issue No. 5 - Unallowable Administrative Costs Totaling $12,385 Were Identified During Our Audit Period

As part of our audit, selected expense items were reviewed for appropriateness and compliance with applicable regulations. As a result, the following expenses, totaling $12,385 were identified as questioned costs.

Health Club Memberships - PWDC purchased health club memberships for six upper level management employees. The decision to purchase these memberships was made in response to management staff's stress levels. While this type of expense is allowable, if made available to all staff, it would not be considered allowable when made available to only a select group of employees.[4] The total amount identified in our audit period was $5,832.

Staff Holiday Party - PWDC hosted a holiday party for its staff. The OMB Circular A-122, Attachment B identifies social activities as an unallowable cost. The total amount identified in our audit period was $5,353.

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[4] This type of expense would be subject to prior program office approval.

Results Of Fieldwork (Continued)

Social Club Memberships - As part of our testing, we identified costs associated with a social club membership for upper management. The OMB Circular A-122, Attachment B, identifies social or dining club memberships as unallowable. The total amount identified in our audit period was $1,200.

These costs were all classified as administrative and allocated to both DPW and L&I. PWDC management has stated that these costs are charged against unrestricted revenue at year end; however, due to the agreed upon ten month audit period year end adjustments could not be verified.

Recommendation

The BFO recommends that PWDC demonstrate to BETP and BWDP that unrestricted revenues were used to fund these expenses. If sufficient unrestricted revenues were not available to fund the questioned cost the $12,385 should be refunded as appropriate.

Issue No. 6 - Conflict Of Interest

PWDC has a consultant agreement with a subcontractor who is working in the capacity of a DPW employee. This arrangement was set up as a result of a special request from the OIM. PWDC draws funding from the state and cuts the checks to this individual; however, the subcontractor invoices are approved by OIM and all work is done in the capacity of a DPW employee.

PWDC is not actually receiving any services from this individual. Services are being provided directly to OIM but paid through PWDC. This contract became effective January 9, 2006, and was only intended to last for 2-3 months. At the close of fieldwork this contract was still in place and payment was still being made. The total amount of this contract is $150,000 and through April 30, 2006, $100,000 of the contract fee has been paid. Additionally, the services provided are administrative in nature, but are being charged as programmatic to TANF.

The reason OIM entered into this type of employment arrangement was to attract a qualified specific individual whose availability may not have lasted in the open market. This arrangement must be considered a conflict of interest in that the individual is approving funding for the organization from which they are receiving compensation.

Recommendation

The BFO recommends the program office immediately move this individual to Commonwealth employment status and terminate this subcontractor agreement

Results Of Fieldwork (Continued)

Observation - Occupancy Cost Allocation Appears To Be Inequitable

PWDC allocates occupancy costs based on the number of staff assigned to a specific department. Generally, occupancy costs are allocated based on the square feet occupied by a specific department.

It is the BFO's opinion that this allocation methodology may inadvertently shift the cost of departments that have a fewer number of staff, but higher cost to a department with more staff and relatively lower costs. In summary this methodology does not equitably distribute occupancy costs and does not appropriately address common areas.

Management stated that occupancy costs are allocated in this manner because staff move frequently, resulting in relocation of office space. While an actual measurement of square footage was not included in this review, it is BFO's opinion that PWDC management should change the way occupancy costs are allocated. Additionally, the OIM should consider pursuing this concern to ensure a more equitable distribution of occupancy costs.

Exit Conference/Summation

The management of PWDC did feel that an exit conference was necessary. Their written response is attached to this report as an Appendix.

In accordance with our established procedures, please provide a response within 60 days to the Audit Resolution Section concerning actions to be taken to ensure that the report recommendations are implemented. In addition, the response should include the OIM's position on the issues and an observation included in the report. Any additional clarification or assistance can be provided by the BFO upon request.

Please contact Richard J. Polek, Audit Resolution Section, at (717) 787-8890 if you have any questions concerning this matter.

Sincerely,

John H. Bungo

John H, Bungo, CGFM, CFS

Attachments

cc: Mr. Karl Hoffman
Mr. John Vogel
Mr. Thomas George
Ms. Sandi Vito
Mr. Dale Porter
Mr. Jeffrey Bechtel

EXHIBIT

Philadelphia Workforce Development Corporation
Administrative Costs

Departments Operating	PWDC Admin	BFO Admin	Admin Difference
Division: Executive	$ 371,293	$ 631,985	$ 260,692
Division: Organizational & Human Resources Development	780,493	904,450	123,957
Division: Finance	1,787,350	2,036,788	249,438
Division: Workforce Services Division - WIA Labor & Industry	236,568	454,935	218,367
Division: Information Management Services	-	-	-
Division: Incumbent Workforce - WIA Labor & Industry	-	103,822	103,822
Division: Transitional Workforce Division - TANF DPW	393,591	762,471	368,880
Division: Administration	983,495	983,495	-
Miscellaneous:			
G&A General Spreads	-	473	473
	$ 4,552,790	$ 5,878,419	$ 1,325,629

EXHIBIT

AUDITEE'S RESPONSE
APPENDIX

Philadelphia Workforce Development Corporation

Building the Bridge to a Better Workforce.

March 27, 2007

Daniel Higgins, Audit Manager
Division of Audit and Review
Bureau of Financial Operations
Department of Public Welfare
502 Philadelphia State Office Building
1400 Spring Garden Street
Philadelphia, PA 19130

RE: Response to Performance Audit

Dear Mr. Higgins:

The following is PWDC's response to the performance audit for the period July 1, 2005 through April 30, 2006.

Audit Finding: Reported Administrative Costs Are Understated

PWDC has never intentionally understated administrative costs. Historically, expenses have been charged to either program or administrative depending upon the activity carried out, not by the title of the individual performing the activity. As a result, many positions whose titles would lead one to believe are one hundred percent administrative, when performing programmatic services, have had that time charged as a program expense. (We believe this manner of allocation is permitted under appropriate regulations). However, PWDC recognizes that this way of allocating expenses can be confusing, and therefore has agreed that Vice-Presidents and related Senior Management positions providing DPW funded services, regardless of any programmatic activity, will be classified as 100% administrative. Also, effective July 1, 2006, the positions of Director of Governmental Affairs and the Director of Communication were eliminated as well as three Vice-Presidents, one Senior Director, four Directors, three senior managers, and eleven administrative officers, assistants and technicians, most of which had been charged as administrative expenses.

Regarding the finding that certain job descriptions are generic in nature, PWDC will undertake a review of all job descriptions to make sure they reflect the current duties and responsibilities of the employee.

Audit Finding: PWDC Does Not Have A Written Cost Allocation Plan

PWDC is in the process of updating and documenting its cost allocation process for compliance with OMB Circular A-122, TAG and new Master Guidelines. The plan will be completed, submitted for approval and implemented for fiscal year beginning July1, 2007.

One Penn Center at Suburban Station, 1617 J.F.K. Boulevard, 13th Floor, Philadelphia, PA 19103, www.pwdc.org
Administrative Office 215-963-2100 FAX 215-567-7171
Training & Client Services 215-557-2800 FAX 215-567-7773

Audit Finding: Time Study Process Used To Support Cost Allocation Is Not Documented And Does Not Comply With Federal and State Guidelines

In conjunction with the revision and implementation of PWDC's cost allocation process and plan, the time study method will be discontinued.

Audit Finding: Program Revenue Not Accounted For In Compliance With Regulations

Beginning with February 2006 FSR, all accountings, including FSR's have been reported under the gross method, thereby disclosing all program income and gross expenditures. PWDC will use the addition method to account for program income (as defined by the TAG), and will use program income only for the purposes and conditions of the grant agreement.

Audit Finding: Unallowable Administrative Costs Totaling $12, 385

PWDC disagrees with the finding that the purchase of health club memberships for six upper management employees is not permitted under the appropriate regulations. Notwithstanding, the health club memberships have been cancelled. All expenses identified under this audit finding are paid from unrestricted revenue.

Audit Finding: Conflict Of Interest

PWDC was requested to enter into ~~this consultant agreement~~ by ~~DPW/OIM~~ which resulted in this audit finding. In the future, PWDC will require a legal opinion or a statement from BFO that any requested consultant arrangement does not violate a provision of any regulation, or create a conflict of interest.

Observation – Occupancy Cost Allocation Appears To Be Inequitable

Occupancy cost allocation will be dealt with in the development of a cost allocation plan.

If you have any questions, or if additional information is required, please contact me.

Very truly yours,

Dale F. Porter

Dale F. Porter, CPA
Chief Financial Officer

Cc: E. Jones, President & CEO