COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
Room 525 Health and Welfare Building
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KEVIN M. FRIEL
DIRECTOR

MAY 13 2009

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 the Philadelphia Workforce Development Corporation that was recently completed by this office. Your response has been incorporated into the final report and labeled as an Appendix.

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

The final report will be forwarded to the Department's Office of 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 Alexander Matolyak, Audit Resolution Section, at (717) 783-7786.

Sincerely,

Kevin M Friel

Kevin Friel

Enclosures

c: Ms. Linda Blanchette
Dr. Bryon Noon
Mr. Karl Hoffman

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Ms. Linda Blanchette
Deputy Secretary for Income Maintenance
Health and Welfare Building, Room 432
Harrisburg, Pennsylvania 17120

Dear Ms. Blanchette:

In response to a request from the Office of Income Maintenance (OIM), the Bureau of Financial Operations (BFO) has completed an audit of Philadelphia Workforce Development Corporation (PWDC). The audit was requested to assess the effectiveness of PWDC's monitoring and oversight of subcontractors.

The report is in final form and therefore does contain PWDC's views on the reported findings, conclusions or recommendations (Attachment). The data used to prepare the report findings was discussed with PWDC management at a closing conference held on February 13, 2009.

Executive Summary

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.

The PWDC receives state and federal grant funding from both the Department of Public Welfare (DPW) and Department of Labor and Industry (L&I). DPW funds flow through L&I to PWDC under the terms of a Master Agreement between the two Departments. The PWDC has two primary service divisions, Transitional Workforce Division (TWD) which directs the DPW programs and the Workforce Services Division (WSD) which directs the Workforce Investment Act (WIA) programs funded by L&I. Findings and recommendations identified in this report pertain to TWD, who administers the DPW funded programs.

FINDING	SUMMARY
Finding No. 1: The Application Of The Request For Proposal Process Needs Improvement	• PWDC does not require providers to submit Cost Allocation Plans which are beneficial in the budget, payment and reconciliation processes. • No staff from PWDC's finance department was assigned to review the most recent RFP submissions. • Scoring of the RFP's financial analysis section varied greatly between the two reviewers with no reconciliation between the two scores. • Providers not required to submit an A-133 audit were penalized in the financial review section. • Staff reviewing the programmatic documentation did not provide sufficient narrative to support the scores given.

HIGHLIGHTS OF RECOMMENDATIONS
The PWDC should: • Require providers to submit a Cost Allocation Plan as part of the RFP process. • Assign controller or other finance staff to review the financial documents submitted with the RFP process. • Consider not assigning a score to the financial aspect of the RFP, but rather analyze the financial statements and assign a risk factor. • Require staff reviewing the performance aspect of the RFP provide sufficient narrative to support the scores given.

FINDING	SUMMARY
Finding No. 2: Improvements To The Contract Monitoring Process Would Increase Oversight Effectiveness	• PWDC completed only nine of the required 28 performance reviews for the contracts sampled. • Follow-up on corrective action plans appears minimal. • In sampling performance benchmarks as part of the performance review, only those benchmarks reported occurring in

Finding No. 2: (Continued)	the month prior to the review are sampled. As such, periods of client activity are not considered in the reviews. • PWDC does not stratify the universe of performance benchmarks by provider prior to selecting a sample. • Compliance levels requiring corrective action appear too low. • Documentation to support monitoring findings is not maintained.

HIGHLIGHTS OF RECOMMENDATIONS

PWDC should:

- Develop a more comprehensive monitoring tool that encompasses both performance and financial monitoring aspects and is applied less often, allowing more focus on specific areas needing improvement.
- The universe of performance benchmarks should include all client activity from the prior monitoring visit and be stratified by provider prior to selecting a sample.
- Be more diligent in following up on corrective action plans and ensure future technical assistance is focused on areas needing improvement.

FINDING	SUMMARY
Finding No. 3: PWDC Needs To Strengthen The Oversight Of Payments Made To Providers	• Invoices were approved with insufficient documentation to support the amounts charged. • Supportive Service funds were used for expenses which were either inappropriate or in violation of the Master Guidelines. • Gift Card incentives for one contract were reimbursed $39,683 in excess of the amount that was actually awarded to clients. • PWDC approved fees associated with gift card purchases. Analysis of one contract identified $20,352 in gift card fees.

HIGHLIGHTS OF RECOMMENDATIONS
PWDC should: • Ensure staff carefully analyze invoices to be sure the expenses are appropriate, allowable and within contract requirements. • Identify providers who are not invoicing properly, provide training on what are considered allowable expenses, and exclude any inappropriate expenses from the provider invoices. • Conduct management reviews of invoices on a frequent basis to ensure expenses reimbursed are appropriate and within program guidelines. • Discontinue the practice of reimbursing providers for fees associated with the purchase of gift cards.

FINDING	SUMMARY
Finding No. 4: Year End Reconciliations Are Not Effective And Are Not Completed Timely	• PWDC requires providers to submit an expense summary at year end; however, there is no requirement to have a supplementary contract expenditure schedule in the audited financial statements. As such, program expenses can only be verified to the audit in total. • The majority of provider audits are not received timely.

HIGHLIGHTS OF RECOMENDATIONS
PWDC should: • Require it's contractors to include a supplementary schedule in their certified audit reports which ties to total expenditures by budget line item. • Institute the timely submission of the certified audit as a provider performance benchmark.

FINDING	SUMMARY
Finding No. 5: Contracts Need To Be Managed In A More Efficient Manor	• PWDC approved a year end budget modification four months after the close of the fiscal period for a total increase of $560,165. • Of the total increase, $287,769 was related to supportive services and

Finding No. 5: (Continued)	incentive payments. These line items were previously identified to include inappropriate expenditures. • As a result the risk is great that these same types of expenditures were replicated within the modification.

HIGHILIGHT OF RECOMMENDATIONS
PWDC should: • Complete budget modifications in a timely manor, utilize the mid-year reconciliations to anticipate funding needs and require providers to reevaluate their funding needs as the close of the fiscal year approaches.

OBSERVATION	**SUMMARY**
Observation No. 1: Contracts Should Be Fully Executed Prior To The Start Of The Fiscal Year	• Most contracts in our sample were not signed until several months after the start of the fiscal period. • Management stated a "Certificate of Return of Funds" is signed in these circumstances.

Background

PWDC's overall contract expense for fiscal year ended June 30, 2008, was $92,896,722, of which DPW funded $75,293,661 or 81%. The remaining contract expense was primarily funded with WIA funds through L&I.

The TWD staff monitors the providers that PWDC contracts with to provide various services such as Job Specific Skills Training (JSST), Pregnant and Parent Youth (PPY), Fatherhood Initiative (FI) and EARN Centers. The services provided under TWD are only available to TANF eligible recipients. In addition, PWDC is responsible to process payments for those contracts that are a pass-through for DPW.

The regulations governing PWDC's funding are the Master Guidelines as issued by DPW, and are based on the federal TANF Regulations, Federal Office of Management and Budget (OBM) Circular A-122, and the Commonwealth TAG, which governs the L&I, WIA contracts.

Objectives/Scope/Methodology

The audit objectives were:

- To evaluate PWDC's controls over the administration and oversight of the sub-contracting process to include the Request For Proposal (RFP), contract monitoring, payment, and reconciliation processes.
- And, to determine whether these controls are adequate to ensure the efficient and effective use of DPW funds.

In pursuing these objectives, the BFO interviewed management and staff from PWDC, as well as management staff from Bureau of Employment and Training Programs (BETP). We also reviewed accounting records, invoices, monitoring reports, contracts, audits, and other pertinent data necessary to complete our objectives. The scope of the audit was the Fiscal Year ended June 30, 2008; however, when appropriated subsequent data was considered.

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 the effectiveness of these controls. In a number of areas we found the controls in place were not effective and could not be relied upon. The concerns identified and areas where we noted an opportunity for improvement in management controls are addressed in the findings of this report.

The BFO's fieldwork was conducted intermittently between November 25, 2008, and February 13, 2009, and was performed in accordance with generally accepted government auditing standards. This report, when presented in its final form, is available for public inspection.

Results of Fieldwork

Finding No.1: The Application Of The Request For Proposal Process Needs Improvement

PWDC currently has in place a process for soliciting RFPs which is, for the most part, functioning effectively; however, the application of this process needs some fine tuning.

PWDC solicits RFPs every two years for its current contracts as well as for new contractors. This process occurs for all programs except the EARN Centers. The EARN Program has not solicited RFPs since the inception of the program four years ago due to the required significant capital investment by a provider. Based on our review, the following weaknesses were identified:

- PWDC requires providers to submit a budget and financial statements, but does not require submission of a Cost Allocation Plan. Cost Allocation Plans are a vital tool that should be used in determining the appropriateness of costs charged. Providers who operate multiple programs should be required to submit Cost Allocation Plans in order to accurately evaluate the appropriateness of costs charged to PWDC's programs. Furthermore, the Cost Allocation Plan would be beneficial in the invoice review, payment process and the final cost reconciliation process.

- The RFP process is separated between financial analysis and programmatic analysis. The financial analysis is further split between financial statement review and budget review. Individuals performing the financial analysis are contract staff and monitoring staff; no one from the finance department was included on the review panel.

- Scoring of the financial analysis sometimes varied significantly between the two reviewers. It would seem that this type of data is more objective and therefore less susceptible to interpretation. As a result, significant differences should be reconciled and documented as part of the review process. Management stated that while it may not be fully documented, areas of discrepancy are discussed and a consensus is determined.

- Providers who were not required to have an A-133 audit, and therefore, did not have all of the required financial schedules were penalized in the financial review phase of the RFP process.

- The staff analyzing the programmatic data did not provide sufficient narratives to support the scores given to the various questions. While range between the scores in this area was reasonable, there was little support for the scores given.

Recommendations

The BFO recommends that PWDC require providers to submit a Cost Allocation Plan to ensure equitable distribution of costs to programs under contract with PWDC.

The BFO also recommends that the PWDC's Controller or staff from the finance department participate on the financial review panels for RFP's to ensure accurate and knowledgeable interpretation of financial data submitted for review.

The BFO further recommends that those staff reviewing the performance data submitted with the RFP include sufficient comments to support the scores given for each question.

Finally, the BFO recommends that PWDC consider not including the scores on the financial statement analysis in the total scoring. Instead, the financial statements should be analyzed and a risk factor assigned. This would help prevent a provider who is not required to complete an A-133 audit from being penalized on the financial statement review.

Finding No. 2: Improvements To The Contract Monitoring Process Would Increase Oversight Effectiveness

During fiscal year 2007/2008, PWDC was conducting performance reviews, financial reviews, and mid year reviews as well as providing technical assistance. Performance reviews are to be conducted on a quarterly basis and are used to assist the provider with meeting program and contractual goals. Financial reviews are conducted to verify performance payments such as enrollment and longevity. The mid-year reviews are conducted to correct discrepancies between the Comprehensive Workforce Development System (CWDS) and provider data.

As part of our data sample, we tested seven providers for which PWDC was responsible to conduct performance monitoring. Related to these seven providers PWDC should have completed 28 monitoring reports (seven providers monitored on a quarterly basis); however, only nine reports were completed for fiscal year ended June 30, 2008. Based on our review of these performance reports, the following deficiencies were identified:

- Of the reports sampled, six required corrective action plans based on the results. PWDC could only produce three of these corrective action plans. Management stated that their filing system was poor and that they were certain they had received all required corrective action plans, but could not locate the requested documents.

- Follow–up on corrective action plans appeared to be minimal. PWDC stated that on return monitoring visits, they review the previous report and corrective action plan to make sure the provider has implemented the stated corrective actions. However, because corrective action plans could not be located, it seems this process does not function as intended.

- When PWDC compiles a sample of performance benchmarks to review, the entire universe of active clients is not included; only those active clients during the month prior to the review are included in the sample universe. It would be more effective to include all active clients since the previous review period.

- When compiling a sample for the monitoring visits, PWDC does not stratify its universe by provider. This should be done in order to ensure a statistically sound sample and to be sure all providers are included in the sample. Because the universe is not stratified prior to pulling the sample, errors identified per provider cannot be extrapolated across a provider's aggregate data set. Monetary sanctions are applied only to the specific error identified. If an error rate could be determined and applied to a provider's entire data set, the financial effect to the provider would be greater and there would be more incentive for the provider to take the necessary corrective actions to address the errors.

- In determining whether corrective action is required, PWDC has stated compliance levels in their reports. Some of these compliance levels appeared to be less then adequate. When questioned PWDC management indicated that the compliance levels were established by BETP; however, BETP has stated that no direction was given related to acceptable compliance levels.

- PWDC does not maintain documentation to support their monitoring review findings. Any identified errors should be fully documented and maintained in a file. This would assist PWDC in doing follow-up and in subsequent monitoring visits.

In summary, PWDC is conducting monitoring and providing technical assistance, however, their efforts are somewhat disjointed and ineffective. Management should seriously consider implementing the recommendations detailed to improve the effectiveness of their monitoring efforts.

Recommendations

The BFO recommends PWDC develop a more comprehensive monitoring tool to encompass both the performance and financial aspects of their monitoring activities and to complete it on an annual or semi annual basis.[1] By developing a more comprehensive monitoring tool and applying it less often, PWDC would be able to focus on the specific areas needing improvement and help providers to work more effectively. Additionally, BETP should work with PWDC to develop this comprehensive monitoring tool.

The BFO also recommends PWDC stratify the universe of performance benchmarks by provider prior to pulling a sample. This will ensure a statistical sample by provider and allow PWDC to apply any error rate identified to the entire provider data set. By applying an error rate to the entire data set, the financial sanction can be greater providing more incentive for providers to make the necessary corrective action. Additionally, the data universe should include all active clients since the prior review.

The BFO further recommends PWDC be more diligent in following up on corrective action plans and ensuring that technical assistance and future monitoring visits be focused on specific areas of concern at each provider.

[1]It should be noted that BFO is not recommending a decreased presence at the program sites, only a more focused monitoring tool.

Finding No. 3: PWDC Needs To Strengthen The Oversight Of Payments Made To Providers

The PWDC contracts identify the process that providers must follow in order to receive payment for services. Depending on the contract and/or provider, a payment may be based upon 100% cost reimbursement or a hybrid model of 25% cost reimbursed and 75% performance based reimbursement. The hybrid model contracts include various performance benchmarks that providers must meet to receive payment. Some benchmarks require documentation to be sent in by providers, while other benchmarks payments are based upon data contained in the CWDS.

Performance based invoices are generated by PWDC from CWDS for the previous month's activity. These invoices are for such performance benchmarks as enrollment, work participation and job retention. The invoice is generated from CWDS and sent to the provider for review to determine accuracy. Once verified by the provider and returned to PWDC, the payment is made. The only performance based payments that require documentation prior to payment are the job placement and job retention payments. Providers must verify the retention payment and send in the appropriate pay stub or employment verification form before payment is made.

PWDC has also developed internal guidelines that staff must follow when reviewing invoices submitted for reimbursement. During our review, it was determined that oversight was limited and that compliance with the requirements within PWDC's internal policy manual and the provider contracts was inadequate. Based on our review, the following deficiencies were noted:

Invoice Review
There are two types of invoice reviews performed by PWDC staff; cost reimbursement and performance payments. According to the contract requirements for cost reimbursement, the provider is to submit documentation for all payroll expenses, any single item over $1,000 and equipment purchases over $5,000 including bidding documents. The contract states supporting documentation may include a copy of payroll registers, invoices, and/or canceled checks.

Our audit identified invoices which were approved with only general ledger print-outs to support payroll expense, and insufficient documentation supporting expense items over $1,000. Additionally, PWDC does not require a cost allocation plan be submitted. As a result, it cannot be determined whether expenses related to providers with multiple programs are appropriately shared.

One provider submitted an invoice for a party for administrative staff held in Dearborn Michigan, its corporate headquarters. The provider served several counties who shared the cost, with PWDC paying 40%. While the expense was fully documented, this type of expense is unallowable. The cost charged to Pennsylvania taxpayers was $2,426. Additionally, because this provider is a for-profit provider, they are permitted and charged an additional $246 or 10% for administration. Although the cost was clearly unallowable PWDC approved and paid this invoice.

<u>Supportive Services</u>
Supportive Services funds are to be used to help clients eliminate or overcome barriers to participate in training programs or sustained employment. Each provider contract identifies an amount that is reserved for supportive services. According to the BETP master guidelines supportive services would include transportation to the employment site, day care expenses, or emergency rent payments for those clients who are facing eviction, etc. In addition, PWDC outlines and defines specific costs that qualify as supportive services in the provider contract. While these costs mirror those paid by the CAO, PWDC's contract provides additional funding for these supportive services categories.

During our review of invoices, we noted instances were PWDC was reimbursing providers for costs in violation of the contract provisions as well as the BETP Master Guidelines. Some examples are as follows:

- PWDC approved a provider's expense for the purchase of an automobile in the amount of $1,300 and an additional $1,760 check for repairs to the automobile. Although, vehicle purchases, as well as repairs to the vehicle, are allowable costs; insurance documentation submitted for approval indicated the client owned three other vehicles, and the check for vehicle repairs was made out directly to the client with no restricted endorsement.

- PWDC reimbursed a provider $618 for the purchase of a computer. The Supportive Service Request Form clearly stated the client's children needed the computer to do their homework. Per the guidelines, supportive service payments are only for the client, not for family members.

- PWDC reimbursed a provider for the payment of a client's cell phone bill. Per the guidelines, only landline telephone expenses are to be reimbursed.

- PWDC reimbursed a provider who stated that the client did not access CAO funding first because the CAO process it too lengthy. Per the guidelines, the CAO allowance must be utilized first before any supportive service funds can be spent.

<u>Gift Cards</u>
The contract between PWDC and providers allow incentives to be awarded when clients reach certain benchmarks. These incentives can range from a $25 to $200 gift card, to SEPTA tokens, depending on the benchmark met. PWDC allows the provider to establish their own benchmark incentive amounts as well as the particular incentive that the client will receive. However, in order to be reimbursed for the incentive, the provider must submit documentation indicating the incentive was awarded including, at a minimum, the client signature and the amount of the incentive. Once this information is received, PWDC will reimburse the provider for those incentives awarded.

A review of expenses in this area identified some providers who submitted documentation indicating that the incentives had been distributed; however, PWDC was paying on the documentation supporting the purchase of the incentives and not the distribution. We found that, in most cases, the purchase amount of the incentives was greater than the distribution amount. An analysis of the one of the larger EARN Centers for the entire contract period resulted in an overpayment of $39,683 to the provider for incentives purchased but not yet disbursed.

Because items such as gift cards are as liquid as cash, the fact that providers are reimbursed prior to distribution to individual consumers presents a significant control issue. PWDC does not track incentives once they have been purchased and reimbursed. Additionally, there is no incentive for providers to maintain adequate control over the gift cards once they have received reimbursement.

Additionally, PWDC has an internal policy governing the reimbursement of incentives which states the incentives must be distributed before the providers can be reimbursed. PWDC management was not aware that this internal policy was not being followed.

Also affecting gift card purchases were fees associated with American Express gift cards. One provider routinely purchased American Express gift cards which carry a 10% fee. During the year this provider incurred $20,352 in fees to purchase the gift cards. We found the amount to be significant and unnecessary and we were unable to identify any additional value as being added to the program or the client by this additional cost.

It is unclear as to whether PWDC was aware of the fees associated with the American Express gift cards. We do believe that the recurring nature of this cost was allowed by the inadequate oversight of program expenditures.

Recommendations

The BFO recommends that PWDC management enforce their current invoice review procedures and ensure staff is properly trained. PWDC management needs to ensure that the staff reviewing and approving invoices are carefully looking at what is submitted and making sure the expenses are appropriate, allowable and within contract requirements.

The BFO also recommends PWDC identify providers who are not properly invoicing or who are submitting invoices for payments that are not appropriate. Once identified, PWDC should provide training to these providers on what is considered an allowable expense, and exclude any inappropriate expense from the provider invoices.

The BFO further recommends PWDC fiscal management staff periodically review invoices that have been approved for payment to ensure the expenses are appropriate and that the required documentation has been included. These management reviews should be conducted on a frequent basis in order to ensure expenses reimbursed are appropriate and within program guidelines.

The BFO recommends that PWDC discontinue the practice of reimbursing for gift card fees, and communicate this policy change to all providers who purchase gift cards as well as to its in-house staff working on invoice approvals.

Finally, the BFO recommends OIM recover the $2,672 unallowable party expense from all state funded programs that paid such expense.

Finding No. 4: Year End Reconciliations Are Not Effective And Are Not Completed Timely

PWDC requires providers to submit a Subcontractor Expenditure Summary detailing total contract expenses by budget line item. These expenses are then compared, in total, to the audited financial statements and verified prior to final contract closeout.

There is no provision in the contract that requires providers to include a supplemental schedule in their certified audit reports which ties to contract expenditures. As a result, audited financial statements do not contain detailed expense information which could be used by PWDC to verify contract expenditures. Most audit reports contain a Schedule of Expenditures of Federal Awards, which PWDC relies on for expense verification; however, they are only comparing the total grant amount awarded to total expenditures. For the hybrid contracts, the 75% performance payment factor must also be supported by allowable expenses. PWDC's current process is void of verification for the expenses that are required to support performance payments.

The PWDC contract requires providers to submit audited financial statements 120 days after the close off the fiscal year for the purpose of verifying final expenses. Providers historically have not been able to meet this deadline. Additionally, because some providers are on a calendar year, their financial statements may not come in until nine months or more after the close of the fiscal year.

PWDC management has stated that they are in the process of hiring two auditors to address concerns with provider's financial statements and assist management in the contract closeout process.

Recommendations

The BFO recommends PWDC require it's contractors to include a supplementary schedule within their certified audit report that details contract expenditures by budget line item per fiscal year. These schedules should be submitted in a timely manor enabling PWDC to verify contract expenses and close the contract.

The BFO also recommends PWDC include as a provider performance benchmark the timely submission of the certified audit.

Finding No. 5 - Contracts Need To Be Managed In A More Efficient Manor

PWDC's primary function is to manage and control provider contracts and the associated expenses. One way PWDC currently manages contracts is the Mid-Year Reconciliation. The Mid-Year Reconciliation is conducted to review a provider's expenses and performance goals. This review is used to evaluate the providers' performance and anticipate its funding needs through the end of the fiscal period. Providers whose performance is below what was expected may have some budgeted funds reduced in order to provide additional funds to a provider whose performance is above what was budgeted.

Additionally, at the end of the fiscal year PWDC approves budget modifications to reallocate funds as needed. While end of year budget modifications are an acceptable way to manage funds, they should be completed within a reasonable time frame. One provider contract included in our sample was modified four months after the close of the fiscal year. The total modification increased the budget by $560,165.

PWDC provided a detailed explanation for the budget line items related to the modification, however, the largest line item increase was for Supportive Services and Incentives ($287,769). This is of particular concern because this provider is the same provider who was identified as inappropriately spending Supportive Service and Incentive funds noted in Finding No.3.

This provider had two EARN Center contracts; Supportive Services and Incentive payments for one contract were analyzed in detail and resulted in the discrepancies as noted in Finding No. 3. For the second contract, similar discrepancies were noted, but a detailed analysis was not performed. None-the-less, the risk of similar inappropriate expenditures is great.[2]

PWDC management stated that the modification was done to cover the providers' actual costs

Recommendations

The BFO recommends that year end budget modifications should be made timely, for example 30-45 days after the close of the fiscal year. Because PWDC currently completes Mid-Year Reconciliations they should be able to anticipate provider needs as the fiscal year closes. Additionally, PWDC should ask providers to reevaluate their needs as the end of the fiscal year approaches so modifications can be completed in a timely manner.

[2] This provider had two contracts for EARN Centers at two different locations. The total contract amount for both contracts was approximately $10 million.

Observation No. 1: Contracts Should Be Fully Executed Prior To The Start Of The Fiscal Year

Most of the contracts included in our audit sample were not signed until after the start of the fiscal year. In some cases, the contracts were not signed until several months after the start of the fiscal year. Management stated that in these circumstances, providers are required to sign a "Certification of Return of Funds" that states if a contract never develops, any funds received will be returned. We do not believe that this safeguard is adequate and no funds should be dispersed without a contract. It should be noted that the state allocations are not always finalized by the start of a fiscal period. However, this should not affect the contracting process; PWDC has a budget modification process in place to adjust provider allocations throughout the year.

Auditor's Commentary/Summation

On April 28, 2009, an exit conference was held at PWDC's administrative offices. As a result of the discussions at the meeting, PWDC made revisions to their response and the BFO deleted an observation that had been included in the draft version of the audit report. In summary, PWDCs response indicates agreement with the BFO's findings and recommendations. In a number of cases, the response identifies the corrective actions being taken or to be taken to resolve the issues identified.

Pertaining to the PWDC response details, the following should be addressed:

Finding No. 2, addresses PWDC's inability to produce three of the six corrective action plans requested. In response PWDC noted that the lower number of corrective action plans on file was the result of a reduced number of provider reviews. The absence of the three corrective action plans requested cannot be explained by PWDC's reduction in on-site monitoring of providers. Our sample was taken from the population of performance reviews that were completed. The sample included six reviews were corrective actions were required. Only three of the six were available for review.

While PWDC's response suggests the fees paid to purchase gift cards should be minimized, it is BFO's recommendation that PWDC adopt a policy and advise the providers that they will no longer participate in any fees incurred in the purchase of gift cards. Gift cards that do not require any additional purchase fees are readily available.

BFO also questioned a $560,165 budget revision that was completed four months after the end of the year. PWDC's response indicates the budget modification had no effect on the payment of funds to the provider. For this response to be accurate, PWDC's payments to the provider during the year would have had to exceed the budget maximum. Budget amounts should act as authorization for payments and should not be exceeded.

In accordance with the BFO established procedures, please provide a response within 60 days to the Audit Resolution Section concerning actions to be taken to ensure the report recommendations are implemented.

Please contact Alex Matolyak, Audit Resolution Section at (717) 783-7786 if you have any questions concerning this audit or if we can be of any further assistance in this matter.

Sincerely,

Kevin M Friel

Kevin M. Friel

c: Mr. Dale Porter
Dr. Bryon Noon
Mr. Karl Hoffman

PHILADELPHIA WORKFORCE DEVELOPMENT CORPORATION
RESPONSE TO DRAFT REPORT

APPENDIX

Finding No.1: **<u>The Application Of The Request For Proposal Process Needs Improvement</u>**

A) PWDC requires providers to submit a budget and financial statements, but does not require submission of a Cost Allocation Plan. Cost Allocation Plans are a vital tool that should be used in determining the appropriateness of costs charged. Providers who operate multiple programs should be required to submit Cost Allocation Plans in order to accurately evaluate the appropriateness of costs charged to PWDC's programs. Furthermore, the Cost Allocation Plan would be beneficial in the invoice review, payment process and the final cost reconciliation process.

The BFO recommends that PWDC require providers to submit a Cost Allocation Plan to ensure equitable distribution of costs to programs under contract with PWDC.

<u>Management Response</u>

Typically PWDC does not request that a Cost Allocation Plan (CAP) be submitted in response to the RFP because a CAP does not give us an idea of the fiscal soundness of the organization. We do recognize, however, that a poorly planned CAP can indicate a problem and should be a factor in determining the level of risk associated with a Contractor. Moving forward PWDC will request all organizations responding to a RFP submit a cost allocation plan with the proposal. Currently, the Finance Department requests a CAP as part of their monitoring process.

B) The RFP process is separated between financial analysis and programmatic analysis. The financial analysis is further split between financial statement review and budget review. Individuals performing the financial analysis are contract staff and monitoring staff; no one from the finance department was included on the review panel.

The BFO also recommends that the PWDC's Controller or staff from the finance department participate on the financial review panels for RFP's to ensure accurate and knowledgeable interpretation of financial data submitted for review.

<u>Management Response</u>

The Financial Review Committee did have a Director from the Finance Department on the panel. In addition, the Operations staff person on the committee has over 25 years of accounting and budgeting experience. In the future all RFP's will be reviewed by the Controller and/or the CFO.

C) Scoring of the financial analysis sometimes varied significantly between the two reviewers. It would seem that this type of data is more objective and therefore less susceptible to interpretation. As a result, significant differences should be reconciled and documented as part of the review process. Management stated that while it may not be fully documented, areas of discrepancy are discussed and a consensus is determined.

<u>Management Response</u>

The process for both the financial and the programmatic committee includes a follow-up meeting with all team members and the scoring is discussed. We agree that the review of the financial statement should be less susceptible to interpretation. The review of the budgets however, may vary based on the opinion of the reviewers. We find these differences helpful and encourages dialog. There are times that a reviewer may change his/her point of view based on the discussion. Any changes are reflected in the final scores. Moving forward all discussions that occur regarding discrepancies in the scoring will be documented in order to support the committees decision to award or deny funding.

D) Providers who were not required to have an A-133 audit, and therefore, did not have all of the required financial schedules were penalized in the financial review phase of the RFP process.

The BFO recommends that PWDC consider not including the scores on the financial statement analysis in the total scoring. Instead, the financial statements should be analyzed and a risk factor assigned. This would help prevent a provider who is not required to complete an A-133 audit from being penalized on the financial statement review.

__Management Response__
In the RFP those providers that did not have or are not required to have an A-133 audit were given the option to provide other documentation. We believe that a full audit is the best way to determine the fiscal soundness of an organization and therefore those organizations that provided the full audit were given more points. We will take the Bureau's recommendation to assign a risk factor to the financial statements. Our Controller will review existing models to determine how this should be incorporated into the RFP process. We welcome any recommendations the BFO has regarding implementation of the risk factor.

Finding No.2: **__The Contract Monitoring Process is not Effective__**

A) Of the [performance monitoring] reports sampled, six required corrective action plans based on the results. PWDC could only produce three of these corrective action plans. Management stated that their filing system was poor and that they were certain they had received all required corrective action plans, but could not locate the requested documents.

__Management Response__
The BFO did not make a recommendation for this finding, however PWDC has taken immediate action to improve the filing system. We now have a centralized filing system for maintaining all performance monitoring tools, reports and correspondence. A Performance Review & Corrective Action Plan folder is maintained for each file review period by EARN Center. These files are centrally located and contain a checklist to ensure content of the performance review, corrective action plan, spreadsheet of client list, benchmarks reviewed, and other related correspondence.

B) Follow–up on corrective action plans appeared to be minimal. PWDC stated that on return monitoring visits, they review the previous report and corrective action plan to make sure the provider has implemented the stated corrective actions. However, because corrective action plans could not be located, it seems this process does not function as intended.

The BFO recommends PWDC be more diligent in following up on corrective action plans and ensuring that technical assistance and future monitoring visits be focused on specific areas of concern at each provider.

__Management Response__
The discrepancy regarding the number of JSST corrective action plans received by the BFO is related to the number of performance reviews indicated on the schedule given to BFO versus the actual number of reviews conducted. According to the performance review schedule presented to the BFO, JSST would have conducted 4 reviews per quarter for each provider. However, due to staffing and implementation challenges, the schedule was reduced. For every performance review conducted, a corrective plan was provided. However, the number of performance reviews and corrective action plans submitted did not correspond with the number expected based on the schedule. Therefore, there were not only fewer corrective action plans. There were equally fewer performance reviews. Beginning with FY 9/10, the JSST performance review schedule will be revised to accurately reflect the actual number of reviews that will be conducted.

PWDC was able to locate and provide reviewers with all corrective action plans for all conducted performance reviews. Now that the system for maintaining all performance review

documentation has been centralized, we are able to immediately locate corrective action plans and performance reviews. Based on the recommendation, PWDC will ensure that we have documentation that charts the technical assistance and monitoring of specific areas of concern that is conducted by PWDC provider representatives to follow-up on corrective action plans.

C) When PWDC compiles a sample of performance benchmarks to review, the entire universe of active clients is not included; only those active clients during the month prior to the review are included in the sample universe. It would be more effective to include all active clients since the previous review period.

<u>**Management Response**</u>
Starting with the May 2009 performance review, PWDC will pull statistical samples that cover all active participants since the last period of review. For example, the May sample will include participants enrolled at any point from December 2008 through April 2009.

D) When compiling a sample for the monitoring visits, PWDC does not stratify its universe by provider. This should be done in order to ensure a statistically sound sample and to be sure all providers are included in the sample. Because the universe is not stratified prior to pulling the sample, errors identified per provider cannot be extrapolated across a provider's aggregate data set. Monetary sanctions are applied only to the specific error identified. If an error rate could be determined and applied to a provider's entire data set, the financial effect to the provider would be greater and there would be more incentive for the provider to take the necessary corrective actions to address the errors.

The BFO recommends PWDC stratify the universe of performance benchmarks by provider prior to pulling a sample. This will ensure a statistical sample by provider and allow PWDC to apply any error rate identified to the entire provider data set. By applying an error rate to the entire data set, the financial sanction can be greater providing more incentive for providers to make the necessary corrective action. Additionally, the data universe should include all active clients since the prior review.

<u>**Management Response**</u>
Starting with the May 2009 performance review, PWDC will pull statistical samples that cover all providers. In addition, rather than review benchmarks for a target month, samples will cover every month that has elapsed since the previous sample, critical content areas, and benchmarks. Currently, we pull samples in an attempt to ensure that each provider is measured on every benchmark. We will look at future samples to see where improvements may be needed.

E) In determining whether corrective action is required, PWDC has stated compliance levels in their reports. Some of these compliance levels appeared to be less then adequate. When questioned PWDC management indicated that the compliance levels were established by BETP; however, BETP has stated that no direction was given related to acceptable compliance levels.

<u>**Management Response**</u>
PWDC will review and standardize compliance levels used to determine whether corrective action is required in time for performance reviews being conducted during May 2009.

F) PWDC does not maintain documentation to support their monitoring review findings. Any identified errors should be fully documented and maintained in a file. This would assist PWDC in doing follow-up and in subsequent monitoring visits.

<u>**Management Response**</u>
PWDC has taken immediate steps to improve the maintenance of documents related to monitoring reviews.

Recommendations
The BFO recommends PWDC develop a more comprehensive monitoring tool to encompass both the performance and financial aspects of their monitoring activities and to complete it on an annual or semi annual basis.[1] By developing a more comprehensive monitoring tool and applying it less often, PWDC would be able to focus on the specific areas needing improvement and help providers to work more effectively. Additionally, BETP should work with PWDC to develop this comprehensive monitoring tool.

Management Response
Currently, performance reviews and financial audits are the responsibility of two separate units and there is a tool for each. The performance review tool was developed with input from BETP. We will look at the possibility of creating one comprehensive tool that can be used by both units to reduce the frequency of reviews. BETP offered technical assistance in the development of the tool.

For performance reviews, PWDC is considering a penalty for error rates falling below a compliance level to be determined.

Finding No.3: **PWDC Needs To Strengthen The Oversight Of Payments Made To Providers**

Invoice Review
There are two types of invoice reviews performed by PWDC staff; cost reimbursement and performance payments. According to the contract requirements for cost reimbursement, the provider is to submit documentation for all payroll expenses, any single item over $1,000 and equipment purchases over $5,000 including bidding documents. The contract states supporting documentation may include a copy of payroll registers, invoices, and/or canceled checks.
Our audit identified invoices which were approved with only general ledger print-outs to support payroll expense, and insufficient documentation supporting expense items over $1,000.
Additionally, PWDC does not require a cost allocation plan be submitted. As a result, it cannot be determined whether expenses related to providers with multiple programs are appropriately shared. One provider submitted an invoice for a party for administrative staff held in Dearborn Michigan, its corporate headquarters. The provider served several counties who shared the cost, with PWDC paying 40%. While the expense was fully documented, this type of expense is unallowable. The cost charged to Pennsylvania taxpayers was $2,426. Additionally, because this provider is a for-profit provider, they are permitted and charged an additional $246 or 10% for administration. Although the cost was clearly unallowable PWDC approved and paid this invoice.

Management Response

1. **PWDC reviewed the invoices that are cited in the Invoice Review section of this document and found the following discrepancies:**

   "Our audit identified invoices which were approved with only general ledger print-outs to support payroll expense"
   In the instance cited, the Provider submitted a payroll allocation report from the General Ledger that outlined the payroll expenses reimbursed by employee and percentage charged to the contract. For providers who do not have access to detailed payroll registers, PWDC Auditors will request these records to verify total payroll expenses and the percentages charged to the applicable project.

   "Insufficient documentation supporting expense items over $1,000"
   PWDC has not been given a specific instance where this was found. PWDC has instituted a new invoice review process that we expect will minimize errors of this type.

"One provider submitted an invoice for a party for administrative staff held in Dearborn Michigan, its corporate headquarters. The provider served several counties who shared the cost, with PWDC paying 40%."

PWDC does not require source documentation verification for amounts less than $1,000. Because the amount allocated to this invoice was $109.44, it was not included in our review. We do acknowledge that this documentation was included with the invoice and payment could have been disallowed with minimal review. For this reason we have established a new invoice review process which is outlined in the next section.

"PWDC does not require a cost allocation plan be submitted. As a result, it cannot be determined whether expenses related to providers with multiple programs are appropriately shared."

PWDC requires that a Cost Allocation plan be submitted during annual fiscal monitoring if one has not already been submitted earlier during the budget approval process. Beginning Fiscal Year 2010, PWDC will request that a Cost Allocation Plan be submitted with the Request for Proposal.

Supportive Services

Supportive Services funds are to be used to help clients eliminate or overcome barriers to participate in training programs or sustained employment. Each provider contract identifies an amount that is reserved for supportive services. According to the BETP master guidelines supportive services would include transportation to the employment site, day care expenses, or emergency rent payments for those clients who are facing eviction, etc. In addition, PWDC outlines and defines specific costs that qualify as supportive services in the provider contract. While these costs mirror those paid by the CAO, PWDC's contract provides additional funding for these supportive services categories.
During our review of invoices, we noted instances were PWDC was reimbursing providers for costs in violation of the contract provisions as well as the BETP Master Guidelines. Some examples are as follows:

- PWDC approved a provider's expense for the purchase of an automobile in the amount of $1,300 and an additional $1,760 check for repairs to the automobile. Although, vehicle purchases, as well as repairs to the vehicle, are allowable costs; insurance documentation submitted for approval indicated the client owned three other vehicles, and the check for vehicle repairs was made out directly to the client with no restricted endorsement.
- PWDC reimbursed a provider $618 for the purchase of a computer. The Supportive Service Request Form clearly stated the client's children needed the computer to do their homework. Per the guidelines, supportive service payments are only for the client, not for family members.
- PWDC reimbursed a provider for the payment of a client's cell phone bill. Per the guidelines, only land line telephone expenses are to be reimbursed.
- PWDC reimbursed a provider who stated that the client did not access CAO funding first because the CAO process it too lengthy. Per the guidelines, the CAO allowance must be utilized first before any supportive service funds can be spent.

Recommendations

The BFO recommends that PWDC management enforce their current invoice review procedures and ensure staff is properly trained. PWDC management needs to ensure that the staff reviewing and approving invoices are carefully looking at what is submitted and making sure the expenses are appropriate, allowable and within contract requirements.

The BFO also recommends PWDC identify providers who are not properly invoicing or who are submitting invoices for payments that are not appropriate. Once identified, PWDC should provide training to these providers on what is considered an allowable expense, and exclude any inappropriate expense from the provider invoices.

The BFO further recommends PWDC fiscal management staff periodically review invoices that have been approved for payment to ensure the expenses are appropriate and that the required documentation has been included. These management reviews should be conducted on a frequent basis in order to ensure expenses reimbursed are appropriate and within program guidelines.

Finally, the BFO recommends that OIM recover the $2,672 unallowable party expense from all state funded programs that paid such expense.

Management Response

1. **PWDC management will provide additional training to Contracts staff and EARN providers on invoicing procedures, as well as regulations governing Supportive Service payments and allowable costs.**

2. **PWDC Contracts staff currently assists providers with invoice preparation. PWDC management will provide training to the staff on assisting their providers on matters relating to invoicing and payment.**

3. **PWDC has instituted a procedure that requires a review and approval of all invoices and supporting documentation by a Contracts Manager prior to payment.**

Gift Cards

The contract between PWDC and providers allow incentives to be awarded when clients reach certain benchmarks. These incentives can range from a $25 to $200 gift card, to SEPTA tokens, depending on the benchmark met. PWDC allows the provider to establish their own benchmark incentive amounts as well as the particular incentive that the client will receive. However, in order to be reimbursed for the incentive, the provider must submit documentation indicating the incentive was awarded including, at a minimum, the client signature and the amount of the incentive. Once this information is received, PWDC will reimburse the provider for those incentives awarded.

A review of expenses in this area identified some providers who submitted documentation indicating that the incentives had been distributed; however, PWDC was paying on the documentation supporting the purchase of the incentives and not the distribution. We found that, in most cases, the purchase amount of the incentives was greater than the distribution amount. An analysis of the one of the larger EARN Centers for the entire contract period resulted in an overpayment of $39,683 to the provider for incentives purchased but not yet disbursed.

Because items such as gift cards are as liquid as cash, the fact that providers are reimbursed prior to distribution to individual consumers presents a significant control issue. PWDC does not track incentives once they have been purchased and reimbursed. Additionally, there is no incentive for providers to maintain adequate control over the gift cards once they have received reimbursement.

Additionally, PWDC has an internal policy governing the reimbursement of incentives which states the incentives must be distributed before the providers can be reimbursed. PWDC management was not aware that this internal policy was not being followed.

Also affecting gift card purchases were fees associated with American Express gift cards. One provider routinely purchased American Express gift cards which carry a 10% fee. During the year this provider incurred $20,352 in fees to purchase the gift cards. We found the amount to be significant and unnecessary and we were unable to identify any additional value as being added to the program or the client by this additional cost.

It is unclear as to whether PWDC was aware of the fees associated with the American Express gift cards. We do believe that the recurring nature of this cost was allowed by the inadequate oversight of program expenditures.

Recommendations
The BFO recommends that PWDC discontinue the practice of reimbursing for gift card fees, and communicate this policy change to all providers who purchase gift cards as well as to its in-house staff working on invoice approvals.

Management Response

1. **Gift Card fees are incurred on major credit card vendors because of the flexibility they offer to the client to pay for a range of needs. For the particular provider in question, fees averaged 4% of total incentives paid for the year which we agree is too high considering the dollar amount of Gift Cards that are distributed. Beginning FY 2010, PWDC will take steps to require that Providers minimize fees by negotiating Gift Card purchases with their banking institutions.**

2. **PWDC's policy is to reimburse providers for incentives that have been distributed to clients and evidenced by client signature. Going forward, a Contracts Manager will review all invoices and supporting documentation to prevent mistakes of this sort.**

Finding No.4: **Year End Reconciliations Are Not Effective And Are Not Completed Timely**

PWDC requires providers to submit a Subcontractor Expenditure Summary detailing total contract expenses by budget line item. These expenses are then compared, in total, to the audited financial statements and verified prior to final contract closeout.

There is no provision in the contract that requires providers to include a supplemental schedule in their certified audit reports which ties to contract expenditures. As a result, audited financial statements do not contain detailed expense information which could be used by PWDC to verify contract expenditures. Most audit reports contain a Schedule of Expenditures of Federal Awards, which PWDC relies on for expense verification; however, they are only comparing the total grant amount awarded to total expenditures. For the hybrid contracts, the 75% performance payment factor must also be supported by allowable expenses. PWDC's current process is void of verification for the expenses that are required to support performance payments.

The PWDC contract requires providers to submit audited financial statements 120 days after the close off the fiscal year for the purpose of verifying final expenses. Providers historically have not been able to meet this deadline. Additionally, because some providers are on a calendar year, their financial statements may not come in until nine months or more after the close of the fiscal year.

PWDC management has stated that they are in the process of hiring two auditors to address concerns with provider's financial statements and assist management in the contract closeout process. Philadelphia Workforce Development Corporation Fiscal Year Ended June 30, 2008

Recommendations
The BFO recommends PWDC require it's contractors to include a supplementary schedule within their certified audit report that details contract expenditures by budget line item per fiscal year. These schedules should be submitted in a timely manor enabling PWDC to verify contract expenses and close the contract.

The BFO also recommends PWDC include as a provider performance benchmark the timely submission of the certified audit.

Management Response

1. **PWDC has hired two auditors who are responsible for the verification of all expenses associated performance revenue received under each contract, as well as the methodology used to allocate those expenses.**

2. **Beginning fiscal year 2010 PWDC will require contractors to include a supplementary schedule in their Independent Audit detailing line item expenditures by contract for the fiscal year end of the audit, or previous fiscal year end for providers on a calendar year basis.**

3. **PWDC auditors will be responsible for the final verification of contract expenses. Therefore, PWDC will continue our process of allowing 120 days for providers to submit audited financials.**

Finding No.5 - **Contracts Need To Be Managed In A More Efficient Manor**

PWDC's primary function is to manage and control provider contracts and the associated expenses. One way PWDC currently manages contracts is the Mid-Year Reconciliation. The Mid-Year Reconciliation is conducted to review a provider's expenses and performance goals. This review is used to evaluate the providers' performance and anticipated its funding needs through the end of the fiscal period. Providers whose performance is below what was expected may have some budgeted funds reduced in order to provide additional funds to a provider whose performance is above what was budgeted.

Additionally, at the end of the fiscal year PWDC approves budget modifications to reallocate funds as needed. While end of year budget modifications are an acceptable way to manage funds, they should be completed within a reasonable time frame. One provider contract included in our sample was modified four months after the close of the fiscal year. The total modification increased the budget by $560, 165.

PWDC provided a detailed explanation for the budget line items related to the modification, however, the largest line item increase was for Supportive Services and Incentives ($287,769). This is of particular concern because this provider is the same provider who was identified as inappropriately spending Supportive Service and Incentive funds noted in Finding NO.3.

This provider had two EARN Center contracts; Supportive Services and Incentive payments for one contract were analyzed in detail and resulted in the discrepancies as noted in Finding NO.3. For the second contract, similar discrepancies were noted, but a detailed analysis was not performed. Nonetheless, the risk of similar inappropriate expenditures is great.[2]

PWDC management stated that the modification was done to cover the providers' actual costs.

[2] This provider had two contracts for EARN Centers at two different locations. The total contract amount for both contracts was approximately $10 million.

Management Response

1. **Year End Closeout of expenses is completed by mid August in order to fulfill the TANF final grant reporting requirement. In the instance cited, a budget modification was**

completed to bring the final expenses that are recorded in PWDC's accounting system in line with the budget, a procedure that PWDC has typically performed for contract closeout. The modification in question had no effect on PWDC's financials nor did it constitute a reallocation of funding, as there was no payment made to the provider or additional expense recorded or transferred.**

2. **Going forward, PWDC will complete line item modifications timely.**

Observation No.1: **<u>Contracts Should Be Fully Executed Prior To The Start Of The Fiscal Year</u>**

Most of the contracts included in our audit sample were not signed until after the start of the fiscal year. In some cases, the contracts were not signed until several months after the start of the fiscal year. Management stated that in these circumstances, providers are required to sign a "Certification of Return of Funds" that states if a contract never develops, any funds received will be returned. We do not believe that this safeguard is adequate and no funds should be dispersed without a contract.

<u>Management Response</u>

1. **PWDC has implemented procedures to ensure that contracts are executed prior to the start of the fiscal year.**

2. **The Advance Certification was used to pay subcontractors without an executed contract. In FY 2010, contracts will be executed prior to the start of the Fiscal Year eliminating the need for the certification.**

Observation No. 2: **<u>Contract Periods Should Not Overlap Fiscal Periods</u>**

In some cases, particularly in terms of the Job Specific Skills Training programs, PWDC has extended the contract period into the subsequent fiscal period. This is done to allow contract funds to be used for clients already in the program. As a result there is no clear distinction between the costs related to the previous fiscal period and its clients and those in the current fiscal period. During these overlapping periods it is difficult to be reasonably assured that the provider has the required costs to support both contracts during the overlapping period.

<u>Management Response</u>

1. **It is sometimes necessary to extend contract periods beyond the fiscal year. PWDC has adequate controls in place to distinguish contract costs from one fiscal period to the next.**