COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
525 Health and Welfare Building
Harrisburg, Pennsylvania 17105-2675

KEVIN M. FRIEL
DIRECTOR

TELEPHONE NUMBER
(717) 772-2231
FAX NUMBER
(717) 705-9094

December 24, 2009

Mr. Knowlton R. Atterbeary, President
KRA Corporation
8757 Georgia Avenue, Suite 1300
Silver Spring, Maryland 20910

Dear Mr. Atterbeary:

I am enclosing the final audit report of the KRA Corporation that was recently completed by this office. Your response has been incorporated into the final report and labeled as an Attachment.

I would like to express my appreciation for all the courtesy extended to my staff during the course of the fieldwork. I understand that you were especially helpful to Timothy N. Rausch 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's contents. The staff from 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 M. Friel

Enclosure

c: Mr. James Schultz
Mr. Robert Hayes
Mr. Dale Porter
Dr. Bryon Noon
Ms. Deborah Glosek

Some information has been redacted from this audit report. The redaction is indicated by magic marker highlight. If you want to request an unredacted copy of this audit report, you should submit a written Right to Know Law (RTKL) request to DPW's RTKL Office. The request should identify the audit report and ask for an unredacted copy. The RTKL Office will consider your request and respond in accordance with the RTKL (65 P.S. §§ 67.101 et seq.). The DPW RTKL Office can be contacted by email at: ra-dpwtkl@pa.gov.

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KEVIN M. FRIEL
DIRECTOR

DEC 24 2009

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

Dear Ms. Blanchette:

In response to requests from the Office of Income Maintenance (OIM) and the Bureau of Employment and Training Programs (BETP), the Bureau of Financial Operations (BFO) conducted an audit of KRA Corporation's (KRA) two (2) EARN Center contracts for the fiscal year ended June 30, 2008.

Based on audit observations and program reviews by independent third parties, OIM was made aware of possible improprieties. As a result, OIM requested that the BFO audit the above reference contracts.

The audit questions the eligibility of costs as stated in Exhibit 1:

- Total reported costs for the EARN Program of $1,278,643 and $940,417 for the fiscal year ended June 30, 2008 for Germantown and Delancey, respectively.
- OIM should recover these questioned costs from PWDC in the amount of $2,219,060.

KRA Corporation
Executive Summary

KRA Corporation is a for-profit corporation which operates in several states and has its corporate offices in Silver Spring, Maryland. Two of KRA's business segments are located in Philadelphia, Pennsylvania, These two business segments are the Germantown and Delancey EARN Centers.

KRA contracts with PWDC, a non-profit corporation acting as fiscal agent for the Department of Public Welfare, to provide, in part, work training skills and job placement to clients who are assigned to it by the Philadelphia County Assistance Offices located in the Germantown and Delancey Districts for the fiscal year ended June 30, 2008.

FINDINGS	SUMMARY
Finding No. 1: KRA's Subcontractor Expenditure Summary Certifies Total Expenses That Are Greater Than The Expenses Audited In The Subsidiary Earn Center Expense Ledgers.	The electronic financial information provided by KRA accounted for significantly less costs than were certified to PWDC on the Subcontractor's Expense Summary. The unidentified variance is questioned.

HIGHLIGHTS OF RECOMMENDATIONS
The OIM should: • Recover $1,819,184 of unsubstantiated and unidentified expenses. • Withhold any payment to KRA until the unidentified variance is either substantiated or the overpayment recovered. • Consider that the audit procedures be extended to include FY 06-07 to determine if KRA reported expenses that they did not incur and to determine if additional overpayments were made in that year.

FINDINGS	SUMMARY
Finding No. 2: Support Services Contained Many Unauthorized And Undocumented Expenditures Which Should Not Be Reimbursed.	Most of the support service payments examined were inappropriate for an EARN Center or lacked adequate substantiation. For example, BFO questioned payments that had no apparent connection to helping a client obtain gainful employment such as bills for pest extermination at a client's home, cable television bills, plumbing repairs and tuition payments for a client's children. Other expenditures that may have been legitimate did not have the required documentation or any documentation at all.

HIGHLIGHTS OF RECOMMENDATIONS
The OIM should: • Recover $334,404 of Support Service payments as unauthorized and/or unsubstantiated. • Withhold any payment to KRA until the expenditures are either substantiated or the expenses are recovered.

FINDINGS	SUMMARY
Finding No. 3: Operating Expenses Contained Ineligible Expenditures Which Should Not Be Considered Eligible For Reimbursement.	Some of the operating expenses that were sampled were inappropriate for an EARN Center or lacked adequate substantiation. For example, KRA charged for a buffet and amusement package for 90 people and a sunset dinner cruise for 130 people.

HIGHLIGHTS OF RECOMMENDATIONS
The OIM should: • Recover $50,773 of unsubstantiated and/or unnecessary expenditures.

FINDINGS	SUMMARY
***Finding No. 4*: Administration – Indirect Costs**	Indirect costs were reduced by eliminating marketing expenses and an excess employee profit sharing expense from the allocable base and the allocation percentage was overstated by approximately one and one-half (1.5%) percent.

HIGHLIGHTS OF RECOMMENDATIONS
The OIM should: • Recover $29,427 of Indirect Costs.

FINDINGS	SUMMARY
Findings No. 5: BFO Recomputed The Profit Amount Based On The Contractual Language As Applied To The Adjusted Total Of Expenses	The net effect of the foregoing adjustments was taken into account in re-computing the profit based on 10% of allowable costs, as audited.

HIGHLIGHTS OF RECOMMENDATIONS
The OIM should: • The BFO recommends that the OIM increase KRA's allowable costs by $14,728.

EXECUTIVE SUMMARY AUDITOR'S COMMENTARY
In response to our draft audit report, legal counsel for KRA provided a written response and supporting documentation. Commentary related to the response and information provided to us follows below: **<u>KRA Asserts that the Audit Scope was too Expansive and Was Not GAGAS Compliant</u>** BFO's letter of introduction to KRA, dated July 15, 2009, clearly defined the scope of the audit to include examination of two contracts which both include cost reimbursement and performance based payments. As such, the review of all components is clearly within scope and appropriate. KRA's response also asserts that the BFO failed to comply with Generally Accepted Auditing Standards (GAGAS) for several reasons including the lack of disclosure of

audit procedures performed and bases for conclusions, that the auditor's did not seek legal opinion regarding contract interpretation, and that the BFO did not examine all available documentation.

However, the draft report included a statement indicating that the audit was performed in accordance with GAGAS, which meets the GAGAS reporting standard. GAGAS does not require disclosure of all procedures performed. Secondly, GAGAS affords auditors the ability to seek, but does **not require** auditors to seek legal opinion. In addition, the BFO did obtain a legal opinion regarding contractual provisions that reconciled to our interpretation of the contract. Furthermore, the report clearly discloses that the basis for conclusions were primarily based upon existing contract terms/conditions and program regulations and guidelines. Finally, the BFO provided unlimited opportunity throughout the duration of the audit process, for KRA to provide documentation, and examined all available documentation as it was provided

KRA Asserts the EARN Agreements do not Limit Profit

While the KRA response asserts that the EARN Contracts do not cap or limit allowable contract profit or margin, we believe that the agreements clearly limit profit (see detailed Auditor's Commentary). Furthermore, this position regarding KRA's belief that profits were not contractually limited does not reconcile to the reporting and invoicing KRA prepared and presented to PWDC. Specifically, those invoices reported profit at the contractual maximum amount. Excess revenue that exceeded the contract allowance for profit was reported as expense that was disbursed amongst several different expenditure line items-inflating those amounts beyond the actual amounts as recorded within KRA account ledgers. Please note that KRA has not provided an explanation as to why KRA reported profit consistent with contractual requirements they are now asserting do not exist and in a way that obscures that amount of profit they actually realized.

KRA Asserts that the Audit Inappropriately Disallowed Expenditures

While the KRA response asserts that the auditors relied upon their own standards, our review of expenditures and determinations regarding appropriateness, relied upon both law (Pa. Code Title 55) and Program manuals/guidelines. In addition, the auditors relied upon PWDC's review of payments and afforded KRA the opportunity to provide additional data for our review-which did not occur during fieldwork. However, KRA did supply additional documentation for approximately one half of the claims questioned as part of their draft audit response. Upon review by the auditors, a change to the draft report was made, as BFO accepted $5,664 in claims previously disallowed. This adjustment reduced the overall percentage of claims questioned from 95.7 to 94.6%

KRA's Response Provides Explanation for Some Questioned Operating Expenses

Based upon review of KRA's explanation for some expenses, and guidance obtained from OIM's Bureau of Employment and Training, a change was made to the draft audit report, reducing the amount of operating expenses determined to be ineligible by $26,545, resulting in a final amount determined to be ineligible of $50,773.

KRA Disputes Audit Determination Regarding Administrative Indirect Expenses

While the KRA response disputes the removal of marketing expense, these expenses were deemed unnecessary as all program referrals originate from DPW, and there is no need for marketing.

KRA Asserts Audit Recomputed Profit Amounts are Baseless

The BFO maintains that the limitations on profit that are clearly mandated by the EARN contracts, as well as appropriate adjustments made to allowable costs, are sufficient and reasonable bases for the recomputed profit disclosed within the report. Slight changes were made to the amount disclosed in the draft audit, per changes recognized above.

KRA Asserts that the Audit Was "Result Oriented"

This is assertion is without merit and KRA has not provided any evidence to support this allegation. In fact, while KRA asserts that the audit was undertaken as a result oriented analysis designed to support a policy of reducing payment to vendors, the impetus for the audit was the numerous anonymous allegations of fraud against KRA, received by the Department. Those allegations are described and were corroborated in part, by the PWDC prepared summary report, attached hereto as Exhibit 3.

Objective/Scope/Methodology

The audit objective developed in concurrence with OIM was:

- To determine the propriety of KRA Corporation's EARN Center expenses attributed to administering the Delancey and Germantown EARN Centers for the fiscal years ended June 30, 2008 and June 30, 2009.

In pursuing the objective, the BFO interviewed OIM staff and KRA management. We also reviewed accounting and financial records, selected invoices and other pertinent data necessary to complete our objective.

We conducted this performance audit in accordance with generally accepted government audit standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The report when presented in its final form is available for public inspection.

Government auditing standards require that the auditors obtain an understanding of management controls that are relevant to the audit objective described above. The limitations on the audit scope as described below restricted our ability to examine the controls to the extent we believe would be appropriate. As a result we modified our audit procedures to a level that would provide us with reasonable assurance of the relevance and reliability of the information that we examined and KRA's compliance with applicable laws, regulations and provisions of the contract. The report findings address all deficiencies that came to our attention.

Scope Limitations:

- The BFO has not expanded the audit work to the fiscal year ended June 30, 2009 year as originally planned. PWDC recently completed their own audit of the EARN Center contracts for the year ended June 30, 2009. BFO has not yet met with PWDC to review their conclusions and determine what additional work would be required for the BFO to form any conclusions on the year ended June 30, 2009.

- At the entrance conference on August 6, 2009, BFO received electronic versions of subsidiary EARN Center expense ledgers for the four contracts. On August 10, 2009, BFO requested access to KRA's general ledger and the certified financial statements for KRA. This information would allow for the reconciliation of the subsidiary listings of expenses to the whole of KRA's activities. Despite the requests, no additional information was provided by KRA.

- BFO did not include Paid Work Experience or Subsidized Wages expenditures in its examination due to time limitations and due to the fact that BETP recently conducted its own investigation into the area of benchmark payments.

- BFO did not include incentives distributed to clients in its examination due to time limitations and due to the fact that a recent BFO audit of PWDC focused, in part, on KRA's purchases of gift and incentive cards. In the PWDC audit, BFO recommended that KRA no longer pay 10% fees over and above the purchasing value of American Express cards, and that PWDC ensure that only those gift and incentive cards actually distributed be reimbursed.

During the course of its audit, BFO was advised that KRA exercised its option to terminate the EARN Center contracts. Page 18 of the contracts states that non expendable items purchased for five thousand ($5,000) dollars or more shall become property of the Commonwealth. Upon completion of the program, KRA is responsible for providing PWDC with an inventory of all property purchased with EARN Center funds. In its Subcontractor Expense Summary KRA has designated $46,846 and $98,946 as equipment purchases of over $5,000 for the Germantown and Delancey EARN Centers, respectively. As such, PWDC should have a list of all furniture or other fixed assets so acquired. Page 19 states that KRA must return to PWDC all such property purchased within thirty (30) days of the termination.

Results of Fieldwork

Finding No 1: KRA's Subcontractor Expenditure Summary Certifies Total Expenses That Are Greater Than The Expenses Audited In The Subsidiary Earn Center Ledgers.

The expenses reported on the Certified Subcontractor Expenditure Summaries submitted by KRA exceeded their actual costs by $1,819,184 and should be recovered. According to KRA's Legal Counsel the variance is attributed to Performance Payments received in excess of actual expenses. We were also informed that KRA was "unclear as to how to allocate performance based and bonus payments" and the claim was merely the result of mistakes on KRA's part.

The contract between KRA and PWDC requires any difference between the payments received for completing performance benchmarks and the actual expenses incurred in operating the program to be credited against future claims or returned. According to KRA's Counsel, KRA, as a for-profit entity, is not bound by this contract term. Counsel further argues that it would be counterintuitive for a for-profit business to contractually agree not to make a profit.

The PWDC contract and reporting format provides for the calculation of profit of for-profit entities. According to the contract, profits are calculated on an agreed upon percentage applied to reported expenses. KRA reported and claimed this profit and did not identify the excess revenue received. KRA instead reported expenses equal to the revenue that KRA received from PWDC. As a result PWDC was not aware that KRA's revenue exceeded expenses and did not act to recover the excess.

Recommendations:

The BFO recommends that OIM recover $1,819,184 of unsubstantiated and unidentified expenses.

The BFO also recommends an audit of the contract expenses for the fiscal year ended June 30, 2007 and the fiscal year ended June 30, 2009.

The BFO also recommends that no further payments be made to KRA pending resolution of the actual amount that should have been returned by KRA.

Finding No. 2: Support Services Contained Many Unauthorized And Undocumented Expenditures Which Should Not Be Reimbursed.

Support Services (SS) Payments in the amount of $153,776 and $180,628 for Germantown and Delancey, respectively should be disallowed. This represents 94.6% of SS payments examined.

BFO reviewed all of SS payments for each EARN Center for the fiscal period ended June 30, 2008. BFO found that many SS disbursements were either for ineligible types of expenses or were not properly documented to substantiate the purported purposes.

EARN Center SS payments are generally intended to facilitate a client's transition for welfare to work. The expenditure support examined included numerous examples of home repair costs such as extermination bills, cable TV bills, purchases of appliances, roof repairs and plumbing repairs that bore no apparent connection to a client's goal of obtaining gainful employment.

On the other hand, expenditures that could be legitimate, such as automobile purchases were not properly documented or exceeded the maximum amount allowable for reimbursement. Also questioned were tuition payments for clients' children.

Recommendations:

The BFO recommends that OIM recover $334,404 of Support Service payments as unauthorized and/or unsubstantiated.

Finding No. 3: Operating Expenses Contained Ineligible Expenditures Which Should Be Considered Eligible For Reimbursement.

Operating expenses in the amount of $26,339 and $24,434 for Germantown and Delancey respectively should be disallowed due to the impropriety of the expense when compared to program objectives.

BFO selected a sample of expenses for vouching. In approximately 13% of those sampled, the purpose of the expenditure was non-EARN by nature. For example, a EARN Center manager rented a new car for a period of months and no mileage or travel log was offered to separate business from personal usage. Another EARN Center manager apparently commuted to Philadelphia from Norfolk, Virginia and billed the EARN Centers for parking, meals, airfare, taxi & tolls and car rentals.

Also disallowed were an October 2007 bar, buffet and amusement package for 90 people at Dave & Buster's and a May 2008 sunset dinner cruise for 130 people.

Recommendation:

The BFO recommends that OIM recover $50,773 of unsubstantiated and/or unnecessary expenditures.

Finding No. 4: Administration – Indirect Costs

Indirect Costs of $17,245 and $12,182 for Germantown and Delancey, respectively should be disallowed as follows:

The BFO has been advised that PWDC has notified KRA that all of KRA's indirect costs for the fiscal year ended June 30, 2009 will be disallowed based on KRA's failure to produce any evidence during PWDC's recent audit. As described in the scope limitation above, BFO takes no position on the most recent contract year ended June 30, 2009.

BFO proposes to remove marketing expenses from the allocable bases for Germantown and Delancey, respectively, because marketing expenses are unallowable. The BFO also adjusted the accrued employee profit sharing expense to actual cost. The effect of removing these items must be factored by the adjustments to the allocation percentages discussed below.

Secondly, KRA's Cost Allocation Plan indicated that 10.6% of General and Administrative costs should be allocated to each EARN Center. Instead, the applied percentages were 12.1% and 11.95% to Germantown and Delancey, respectively. As such, the allocation percentages for Germantown and Delancey were overstated by 1.5% and 1.4%, respectively. After reducing the allocable bases for the items noted above, costs of $17,245 and $12,182 will be disallowed from Germantown and

Delancey, respectively, for their corresponding reductions in percentages used to allocate overhead.

Recommendation:

The BFO recommends that OIM recover $29,427 of Indirect Costs.

Finding No. 5: BFO Recomputed The Profit Amount Based On The Contractual Language As Applied To The Adjusted Total Expenses.

This contract permits KRA to invoice an additional 10% of total administration expenses and 10% of program service costs less direct client payments, i.e.: incentives, support services and paid work experience.
Recalculating KRA's allowable profit based on audited expenses less adjustments results in a increase (decrease) to KRA's profit of $22,157 and ($7,429) for Germantown and Delancey, respectively. This results in a net addition to allowable costs of $17,516

Recommendation:

The BFO recommends that OIM increase KRA's allowable costs by $14,728.

Auditor's Commentary

In response to our draft audit report, legal counsel for KRA provided a written response and supporting documentation. Commentary related to the response and information provided to us follows below:

KRA Asserts That The Audit Scope Was Too Expansive And Was Not GAGAS Compliant.

The KRA response asserts that the BFO exceeded the stated scope of its audit and should have limited itself to verifying the expenses incurred in operating the EARN Centers. As such, KRA argues that the BFO's conclusion that KRA was not entitled to retain the full amount of cost reimbursements and performance based payments was beyond BFO's stated scope.

However, Page 1 of the BFO's letter of introduction to KRA dated July 15, 2009 stated, "The (EARN Center) contracts to be audited are EC08-006 and EC 08-010 for the fiscal year ended June 30, 2008." Since the EARN Contracts include cost reimbursement and performance based (i.e. are hybrid contracts), an examination of documentation in support of any and all components of the EARN Contracts would have been within the original intended scope of the audit.

KRA's response also asserts that the BFO failed to comply with Generally Accepted Auditing Standards (GAGAS) for several reasons including the lack of disclosure of audit procedures performed and bases for conclusions, that the auditor's did not seek legal opinion regarding contract interpretation, and that the BFO did not examine all available documentation. To that point, we provide the following:

- The report contains an unmodified compliance statement indicating that the audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). This meets the reporting standard and relates to the informed reader that the auditors followed all applicable unconditional and presumptively mandatory GAGAS requirements.

- The report clearly discloses that the basis for conclusions were primarily based upon existing contract terms/conditions and program regulations and guidelines.

- GAGAS provides that auditors may obtain a legal opinion <u>but does not necessarily require</u> it. The BFO did obtain an opinion of contractual interpretation from counsel which did reconcile to our interpretation of the EARN Contracts.

- Finally, the BFO provided unlimited opportunity throughout the duration of the audit process, for KRA to provide documentation, and examined all available documentation as it was provided.

<u>KRA Asserts The EARN Agreements Do Not Limit Profit</u>

KRA's response states, "There are simply no limitations on the amount of profit or profit margin KRA may generate under the EARN Contracts." BFO disagrees with this statement. Page 12 of the EARN contract states, "For all methods of payment, Contractor agrees to maintain records to document expenses equal to revenue earned. Any revenue received in excess of documented expenses will be returned to PWDC as program income." In addition, all for-profit Contractors, such as KRA, "...agree that *profit* will be calculated on a percentage basis of the actual invoice submitted." (Earn Contracts, page 12, emphasis added). Page 12 of the contract also provides that the contract budget discloses a profit rate and a total amount allowable under the Contract.

As such, the KRA response is clearly at odds with the plain language of the EARN Contracts in so far as there is a profit computation based on a percentage of costs that is contained in the budget and, by nature, disclosed up front, before the contracts were executed.

KRA's own reporting and submission to PWDC of the Subcontractor Expenditure Summaries (SES) disagrees with the position taken in the response that profits are unlimited. The actual profit <u>reported</u> on the SES was limited to the contractual maximum. Any additional profit was not disclosed to PWDC, but rather, was disbursed amongst several expenditure line items that were inflated above actual amounts as recorded within the KRA ledgers. For example, we note that reported expenditures for salaries of the two EARN contracts were inflated at $261,367 and $416,524 respectively, above actual costs recorded. Amongst all expenditure line items, including salaries, KRA reported $1,819,184 more in expenses than amounts recorded.

While KRA's response asserts that the draft audit erroneously indicated that KRA or counsel had previously indicated that mistakes were made in completing the SES, Exhibit (2) attached to this report clearly contradicts that assertion. In Exhibit (2) KRA counsel concedes that any disparity between general ledger accounts and reported amounts were "merely the results of mistakes on KRA's part" and also recognizes that the expenses on the SES do not line up with expenses recorded in the KRA ledgers. When coupled with the KRA response, KRA suggests that these mistakes should be considered allowable profit.

In conclusion, Audit Report Finding No. 1 remains unchanged based upon previous work as well as consideration of KRA's response.

<u>KRA Asserts That The Audit Inappropriately Disallowed Expenditures.</u>

KRA's response also asserts that the BFO lacked authority for its disallowance of a significant portion of the Support Service payments. KRA argues that an expansive definition of "barriers to employment" has been allow[ed]" by the BETP and that PWDC has used it's discretion to reimburse based upon evidence already submitted and approved.

The BFO has subsequently obtained concurrence from both parties that this is simply not true.

In addition, PWDC recently conducted a review of Support Service payments for the FY 07-08 period and examined related supporting documentation submitted by KRA and found the majority of payments to be unallowable or unsupported. PWDC prepared a report categorizing each support service payment made as "approved", "needs additional information" or "disapproved".

The BFO forwarded PWDC's original report to KRA without change and provided KRA with the opportunity to provide additional support for our review for those payments deemed "disallowed" or "needs support". However, KRA did not provide us with additional documentation during completion of fieldwork to support these payments as "approved".

Subsequent to the issuance of the draft report, KRA provided additional documentation for 812 of the Supportive Service payments, approximately one half of the original claims reviewed by PWDC and BFO. The BFO reviewed the additional documentation submitted and has accepted $5,664 in Support Service payments. As a result, the percentage of questioned claims was reduced from 95.7% to 94.6%.

While the KRA response asserts that the auditors imposed their "own unspecified standards" specific to these payments and support for them, the standards used by <u>both</u> PWDC and BFO:

1. Pa. Code Title 55, Section 165.41 et. al.
2. Support Services Manual
3. BETP Master Guidelines, Appendix B, supportive Services Allowances

In conclusion, Audit Report Finding No. 2 remains primarily unchanged, with exception of the minor adjustments outlined above.

KRA's Response Provides Explanation For Some Questioned Operating Expenses.

Based upon our review of KRA'S explanations presented and guidance received from OIM's, the eligibility of $26,545 of questioned operating expenses are no longer categorized as questioned. As such, the draft report amount determined ineligible for reimbursement has been reduced to $50,773.
Although the KRA response suggests that other expenses may be substituted for any operating expenses that were disallowed, the BFO audit already considered all of the expenses that were presented in KRA's subsidiary EARN Center Expense Ledgers.

It is also necessary to note that while KRA's response indicates that PWDC was aware of various other staff and travel expenses, PWDC advised BFO that it was disallowing many travel expenses for the fiscal ended June 30, 2009 and recommended that BFO should be aware that similar payments were made during the fiscal year ended June 30, 2008.

In conclusion, Audit Finding No. 3 was adjusted to reflect a reduced amount of ineligible expenditures, as described above.

KRA Disputes Audit Determination Regarding Administrative Indirect Expenses.

BFO removed marketing expenses from the grouping of expenses that are in turn allocated to overhead. The marketing expenses were deemed unnecessary and disallowed as EARN Centers receive all their referrals from the Pennsylvania Department of Public Welfare and, as such, there is simply no need to market EARN Centers to a more general public. Prior to the draft report response, this issue was not raised at any time.

In conclusion, Audit Finding No. 4 remains unchanged from the draft report.

KRA Asserts Audit Recomputed Profit Amounts Are Baseless.

The re-computation of profit allowable was changed based upon several minor revisions outlined above within this commentary. However, as we disagree with KRA's assertion that re-computation is without foundation, Audit Finding No. 5 remains largely intact.

KRA Asserts That The Audit Was "Result Oriented".

Regarding the last paragraph of KRA's Response, it must be noted that any suggestion or inference that the Department of Public Welfare or any of its agencies directed certain predetermined conclusion(s) in support of cutting or reducing payments to Providers is simply without merit or basis.

In fact, the audit was precipitated, at least in part, by numerous anonymous employee fraud allegations including the manipulation of client files and fraudulent entries, as well as erroneous time entries designed to support client compliance that was otherwise nonexistent. These assertions, corroborated in part by an investigation undertaken by

PWDC, are more specifically described in the PWDC summary report attached hereto as Exhibit 3.

KRA's response is attached as an Attachment to the report; KRA elected not to have an Exit Conference.

In accordance with our established procedures, an audit response matrix will be provided to your office. Once received, please complete the matrix within 60 days and email the Excel file to the DPW Audit Resolution Section at: RA-pwauditresolution@state.pa.us. The response to each recommendation should indicate your office's concurrence or non-concurrence, the corrective action to be taken, the staff from your office responsible for the corrective action, the expected date that the corrective action will be completed, and any related comments.

Sincerely,

Kevin M Friel

Kevin M. Friel

Attachments

c: Mr. Knowleton Atterbeary
Mr. James Schultz
Mr. Robert Hayes
Mr. Dale Porter
Dr. Bryon Noon
Ms. Deborah Glosek

KRA'S
RESPONSE TO DRAFT REPORT

COZEN
O'CONNOR

A PROFESSIONAL CORPORATION

1900 MARKET STREET PHILADELPHIA, PA 19103-3508 215.665.2000 800.523.2900 215.665.2013 FAX www.cozen.com

Robert W. Hayes
Direct Phone [redacted]
Direct Fax
[redacted]@cozen.com

November 20, 2009

VIA E-MAIL

Mr. David Higgins, Audit Manager
Division of Audit and Review
Bureau of Financial Operations
Department of Public Welfare
801 Market Street
Suite 5040
Philadelphia, PA 19107-3126

Re: Philadelphia Workforce Development Corporation v. KRA Corporation

Dear Mr. Higgins:

On behalf of KRA Corporation ("KRA"), we herewith respond to the draft report of the audit the Bureau of Financial Operations ("BFO") purported to conduct of KRA's two EARN Center contracts for the fiscal year ended June 30, 2008.

Before addressing BFO's specific findings, it is noted that BFO clearly exceeded the scope of its stated audit objectives. The draft report indicates that the audit objective developed in concurrence with Office of Income Maintenance ("OIM") was to "determine the propriety of KRA Corporation's EARN Center expenses attributed to administering the Delancey and Germantown EARN Centers for the fiscal years ended June 30, 2008 and June 30, 2009." (Draft Audit Report, p. 4.) The audit objective was subsequently narrowed to the fiscal year ended June 30, 2008. In any event, the stated objective would extend only to verifying the amount of expenses incurred in operating the EARN Centers. The BFO exceeded the scope of this audit objective in concluding that KRA was not entitled to retain the full amount of the cost reimbursement and performance based payments made during the fiscal year ended June 30, 2008 (Finding No. 1) as this determination had nothing to do with the propriety of KRA's expenses but rather involved a contract interpretation of the full extent of the payments to which KRA is entitled. Further, as the supportive services payments (Finding No. 2.) are advances to clients for which KRA is entitled to reimbursement, they are not "expenses attributed to administering the Delancey and Germantown EARN Centers," which plainly refers to the costs incurred to provide evaluative services, training in job search, interviewing and performance skills and assistance in seeking and retaining employment.

It is also evident that the BFO failed to comply with Generally Accepted Government Auditing Standards ("GAGAS"). As a general matter, contrary to GAGAS, the BFO does not identify what audit procedures were performed or state the basis for the auditor's conclusions. These glaring deficiencies have limited KRA's ability to respond to the BFO's audit report. As to Finding 1, even if interpreting the EARN Center contracts were within the scope of BFO's objectives, where an auditor's opinion is based upon an interpretation of a complex agreement, GAGAS mandates that the auditor obtain a legal opinion from an attorney as to the proper interpretation of the contract. There is no evidence that BFO sought a legal interpretation of the complex EARN Center Agreements. Second, GAGAS requires that an auditor examine all available documentation. Although KRA repeatedly advised BFO that the specific documentation justifying supportive payments is maintained at the EARN Centers within the program recipients files, BFO did not review this documentation and, yet, concluded that KRA lacked support to justify supportive service payments. Under GAGAS, BFO should have identified the specific supportive services payments that it believed were not adequately documented before submitting a draft report and afforded KRA an opportunity to cure these supposed deficiencies.

Not surprisingly, given BFO's failures to comply GAGAS, each of its findings are substantively baseless:

Finding No. 1 – Subcontractor Expenditure Summary

BFO contends that the expenses KRA reported on the "certified" Subcontractor Expenditure Summary ("SES") exceed its actual costs by $1,819,184 and should be recovered. It appears to base this position on the assertion that the entire difference between the payments received and costs incurred to operate the EARN Centers should have been reported at Line 16 - "profit"- of the SES. It further contends that reporting the entire amount of the "profit" on Line 16 would have alerted PWDC that KRA's profit exceeded the contractually permitted profit margin and caused it to seek a refund of the excess profit.

This position is based upon a fundamental misinterpretation of the EARN Agreements and an attempt to impose limitations applicable to cost reimbursement contracts to the hybrid EARN Center Agreements PWDC executed with KRA. There are simply no limitations on the amount of profit or profit margin KRA may generate under the EARN Contracts. In Section A 7, each Agreement establishes methods of payment for the three compensation methodologies PWDC utilizes: cost reimbursement; performance based; and hybrid. There are separate payment methods and limitations for each payment methodology. Section A 7(d) states that "Hybrid Contracts have a combination of cost reimbursement and performance based payments associated with them." The cover/signature page to the Agreements specifies that the "obligation for the period July 1, 2007-June 30, 2008, for this contract is comprised of three (3) components: cost reimbursement for the Contractor's operations . . .; cost reimbursement for direct client expenses; and performance based payments." The schedule of performance based payments sets forth specified benchmarks, such as a program participant devoting 30 hours a week in job search or training activities and or obtaining employment, for which a payment in a defined amount will be made.

The only limitation within the terms of the EARN Center Agreements on the amount that can be earned in a hybrid contract are the limits on cost reimbursement. By design, in the hybrid contract, PWDC agreed only to compensate KRA for a portion of the operating costs it was expected to incur. KRA could only cover the remaining portion of its expenses and earn a profit through performance based payments, which were dependent upon KRA successfully operating the EARN Center. The only other limitation on the payments KRA could receive was through course of dealing. Before the EARN Agreements were executed, PWDC advised KRA of the funding it had available for the year and this sum was stated as the anticipated "obligation due the contractor for all activity, operating and direct expenses" during the term of the Agreement. If the payments approached this amount, KRA and PWDC would agree on a higher funding amount. Provided that KRA remained within the specified funding allowance, there was nothing that prevented it from increasing its profit margin by providing its services more efficiently, effectively or to a greater number of program recipients than anticipated.

The BFO does not cite to any applicable contract term in support of its position that KRA was only entitled to a defined profit margin. BFO contends that the contract "requires any difference between the payments received for completing performance benchmarks and the actual expenses incurred in operating the program to be credited against future claims or returned." (Draft Report, p. 5.) While BFO does not provide a citation to the EARN Agreements for this assertion, it is apparently citing to the definition of program income. However, it ignores the specific statement in the definition of program income that "[i]n performance based contracts," any difference between the payments received for completing performance benchmarks and the actual expenses incurred in operating the program to be credited against future claims or returned. (EARN Agreement, § A 4, p. 11.) Once again, the KRA contracts were hybrid, not performance based. Assuming this requirement applied to the KRA hybrid contracts, even under BFO's recalculated cost figures, the performance based payments made to KRA (Germantown - \$2,720,397; Delancey - \$1,459,087) did not exceed the actual costs incurred in operating the program (Germantown - \$4,907,775; Delancey - \$3,424,340).

BFO also claims that, under the contract, "profits are calculated on an agreed upon percentage applied to reported expenses." Once again, it does not cite to any section of the KRA EARN Agreements in support of this assertion and we could not locate any such provision. The closest statement we could find is in Section 7 A(c) that "For Profit Making Agencies Only . . Contractor agrees that profit will be calculated on a percentage basis of the actual invoice submitted." However, this provision applies to cost reimbursement contracts, not hybrid contracts. To apply this provision to the KRA EARN Contracts would actually increase reimbursement to KRA because its invoices included both cost reimbursement and performance payments, so the profit margin (whatever that is claimed to be) would be calculated based upon the $6,011,215 total payments submitted to KRA.

Moreover, the clear purpose of the SES is to calculate whether the contractor received "Program Income" that must be refunded to PWDC. Aside from the fact that "Program Income" is a concept inapplicable to hybrid contracts, it is not profit. Profit is the difference between total revenues and cost while, once again, "Program Income" is defined as the difference between the performance based payments received and the contractor's actual expenditures to operate the EARN Center. PWDC was not seeking the return of profit, but rather the return of Program Income – clear evidence that PWDC did not believe there was any limit on the profit margin KRA could earn. Contrary to BFO's assertion, PWDC did know KRA's revenues exceeded its costs, but the SES form demonstrates that KRA's profit margin was of no significance to PWDC.

Contrary to the assertions in the draft audit report, we never stated that KRA actually made a mistake in completing the SES. Rather, we stated that the SES form is flawed in that it directs the preparer to inaccurately calculate Program Income because it states that line 20 (Total Expense) should be deducted from line 24 (Total Payments Due Contractor) when, in accordance with the definition of Program Income, Line 19 (Program Services Expense) should have been deducted from Line 23 (Total Performance Based Payments Achieved). Further, there is no statement on the SES form that all profit must be listed on Line 16. As such, if KRA should have included the entire amount of its profit on Line 16, this purported mistake resulted because the SES form is inaccurate and confusing.

In any event, it would have made no difference in the ultimate calculation in the SAS form if KRA had included the entire amount by which its revenues exceed costs in the line item for "profit" because this line item is deemed an expense item on the SAS form. "Profit" is line item 16 and the form instructs the preparer to total lines 10 through 18 to calculate the "Subtotal Program Services Expense." Thus, while including all of the "profit" in line 16 would have increased that line item, it would have correspondingly reduced other expense line items, such as salaries, so that the "Subtotal Program Services Expense" would have remained the same. As the allocation of profit among the expense items had no bearing on the ultimate calculation, no inference of an intent to mislead can be inferred from this allocation.

There is simply no basis for PWDC or the Commonwealth to seek the return of $1,819,184 from KRA. There are simply no limits on the profits KRA was permitted to obtain under the EARN Agreements. Even if all profit were included on Line 16 of the SAS form, the ultimate calculation would not have changed.

Finding No. 2. – Supportive Services

In rejecting 95.7% of the Supportive Services Payments, BFO claims, without citation, that Support Services are "generally intended to facilitate a client's transition for [sic] welfare to work." (Draft Report, p. 6.) In fact, this is not the applicable standard. The PWDC Supportive Service Policy that is incorporated into and attached as an exhibit to the EARN Agreements states that supportive services are "intended to eliminate or overcome barriers to participating in training programs or sustained employment." These "barriers" are broader than the direct impediments to reaching an employer's place of business that BFO claims are appropriate uses of supportive services payments. The categories of supportive services identified on the Policy include housing assistance, utilities assistance and emergency child care. While these categories are identified as "N/A," on the chart of supportive services permitted, the second page of the Policy states, "[f]or those line items where 'N/A/' [is] posted . . . BETP allows PWDC the discretion to dispense funds for these categories of need, if, in fact, they constitute a serious barrier to a Job Candidate's successful participation in JSS training or sustained employment. For example, funding may be provided for back rent or assistance with utility bills." PWDC also encouraged the EARN Centers to be liberal in granting supportive services because of the dire circumstances in which most program recipients find themselves, and to give them every opportunity to obtain gainful employment.

BFO's assertions that reimbursement for home repair costs, such as extermination bills, cable television bills, appliance purchases, roof repairs and plumbing repairs bear "no apparent connection to a client's goal of obtaining gainful employment" is inconsistent with the standards established in the EARN Agreements. Living in a pest infested home or without running water may prevent public assistance recipients from obtaining the sleep needed to concentrate during working hours or to practice the fundamental hygiene required of employees. If BFO had bothered to actually review the program participant files where the justifications for providing support services are documented, it would have realized that, in one instance [redacted] the exterminator's bill was paid because the participant's home was infested with flees. Further, KRA did not provide supportive services to pay a "cable TV" bill. Rather, the program participant obtained phone service through the cable provider and the bill was paid to restore her telephone service. Forwarded with this letter is an Excel spreadsheet of BFO's workpapers for the supportive services it claims were unjustified on which KRA set forth the explanation included in the program participant files of the basis for providing supportive services for those categories of payments PWDC challenges.

It is difficult to understand how BFO could also conclude that there is inadequate documentary support for those supportive service payments when it did not review the program participant and EARN Center files. In any event, in reaching this conclusion, BFO is once again imposing its own unspecified standards as to the documentation required to justify a supportive service grant. It certainly does not cite contract or other standards in support of its conclusions that additional documentation should have been provided. Notably, without citation to any standard, BFO claims that KRA could not utilize supportive services funds to provide CPR classes unless this certification was for specific job training. To the contrary, professional development is an appropriate use of supportive services funding consistent with PWDC's Supportive Services Manual.

Moreover, KRA was required to provide supporting documentation to PWDC for every request for reimbursement for supportive services grants. PWDC found KRA's requests well documented and even asked it to present to other EARN Center operators on best practices in documenting supportive services grants. There is no basis for BFO to review these approvals at this point, particularly in that, if PWDC had advised KRA that its documentation of supportive services grants was inadequate, it could have cured those deficiencies and certainly would have assured it had adequate documentation for subsequent supportive services grants.

While KRA was not required to perform BFO's audit for it, it reviewed the program participant files to identify the existing documentation for supportive services grants. It was hampered by the fact that many of these grants were made over two years ago and the short time it was afforded to review voluminous files. Nevertheless, we are providing with this letter zip files with an analysis of those files KRA has been able to review. Each analysis identifies each participant or group of participants, recites BFO's criticism of the documentation and responds thereto, often citing from the notes in the program participant's file. Given their volume, the referenced documents will be separately produced.

There is no basis for the BFO auditors to substitute their own standards for the contract requirements and PWDC's supportive service Guidelines. Under GAGAS, auditors may not substitute their judgment for trained professionals in the field, particularly in that the auditors did not even review the program participant files. KRA's payments of supportive services was consistent with prior course of dealings with PWDC to which the auditors must also defer. KRA received no benefit from providing supportive services to program participants (in fact, when the cost of money and processing costs are considered, it did so at an unreimbursed loss). The auditors cannot require KRA to bear these costs by an *ex post facto* review of expenditures already approved by PWDC.

Finding No. 3 – Operating Expenses

BFO concludes that a total of $77, 318 in operating expenses were unsubstantiated. Regardless of whether these operating expenses were substantiated, in recommending that OIM "recover" them, BFO ignores that PWDC only paid KRA for part of the expenses incurred in operating the EARN Centers. KRA and PWDC developed a course of dealing in which KRA billed PWDC for the full amount of the costs it incurred until it reached the contract cost reimbursement limit. As such, if the challenged costs were incurred after KRA reached the contract cost reimbursement threshold, PWDC would not have been billed for them. Conversely, if PWDC were billed for any of these costs, and they were unsubstantiated (they were not), KRA would be entitled to substitute other substantiated expenses.

Further, BFO's challenges to these expenses are based upon its drawing an artificial distinction between expenses considered to be EARN or non-EARN in nature. However, during the time period in question, KRA had no other operations at the Delancey or Germantown facilities other than the EARN Centers and all expenses incurred were to operate these programs. Under the EARN Agreements, KRA is entitled to reimbursement for a stated percentage of all of those expenses and BFO may not deny KRA these contractual rights by substituting its own judgment as to what is an appropriate expense.

Accompanying this letter is an Excel spreadsheet substantiating the expenses challenged in BFO's work papers. This response highlights that BFO auditors, lacking training or experience in workforce development or counseling, are deeming expenses to be unsubstantiated based upon their opinion as to how the EARN Centers should be operated. PWDC engaged

KRA based upon its well earned reputation in the field and to implement the philosophy outlined in its proposal. BFO may not reject expenses based upon its disagreement with this philosophy.

Addressing the expenditures highlighted in the draft report, the Dave & Busters outing and sunset dinner cruise were for employee holiday or other outings. These staff development events were provided to boost employee morale and are no different than other employee benefits which BFO does not dispute were appropriate. The EARN Center manager rented a van, not a car, to transport a group of program recipients to a remote place of employment.

The other EARN manager's travel expenses were necessary and directly related to the EARN operations. These expenses were charged to the FY08 Delancey and Germantown EARN contracts following the PWDC's recruitment of KRA's long-time Philadelphia program leader, Mr. Ralph "Rip" Shivone to operate a separate, PWDC-funded project. Mr. Shivone departed KRA at the end of October 2007. Mr. Shivone's recruitment by PWDC, and his subsequent recruitment of eight experienced Delancey and Germantown EARN staff to work on the new PWDC-funded project, resulted in a substantial loss of program knowledge on the KRA Philadelphia team. To replace these individuals, KRA asked [redacted] who resides in Virginia, to assist in delivering EARN program support for the balance of FY08 contract period as part of a multi-pronged strategy to ensure that the Delancey and Germantown EARN Centers would continue to perform at a high level, and was implemented with PWDC's knowledge. The expenses in question were to reimburse [redacted] for the costs he incurred to travel from Virginia. These expenses were for trips to:

- Meet with PWDC and BETP to discuss program operations
- Meet with individual customers to assess quality of program delivery and met with groups of customers to facilitate focus groups to ensure services were meeting their needs.
- Deliver and participate in staff training to ensure case management, job development, and data tracking and reconciliation was being performed adequately
- Meet with staff teams (clusters) to ensure proper communication was flowing and a high performance culture was being nurtured and cultivated
- Meet with PWDC leadership and staff to develop best practices and discuss KRA methodologies that were adopted by PWDC.

Lastly, in this respect, it is noted that BFO challenges various moving and other expenses incurred at the Delancey Center. KRA opened this Center. The EARN Agreement for the fiscal year ended June 30, 2008 included a specific cost allocation for the costs incident to opening this Center, such as moving equipment from an existing single point of contact center ("SPOC"). BFO cannot deem costs specifically allowed in the contract to be improper.

Finding 4 – Administrative Indirect Expenses

BFO "proposes to remove marketing expenses from the allowable bases" without providing any support for its claim that these expenses are not allowable or that the expenses it was removing were actually marketing expenses. Further, BFO offers no basis for its implicit

assumption that KRA is bound by the cost allocation plan it submitted even though its actual experience differed.

Finding 5- Recomputed Profit

As is set forth previously, there is no basis in the contract for BFO's position that the amount of KRA's profit was set at ten percent of total administrative expenses and ten percent of program service costs less direct client payments. As such, this recomputation is without foundation.

* * *

We do not find it coincidental that OIM has undertaken audit of KRA at a time of budgetary crisis. BFO's audit is plainly a result oriented analysis intended to support a policy decision to cut payments to state vendors. This analysis will not survive objective scrutiny.

Very truly yours,

COZEN O'CONNOR

By: Robert W. Hayes

RWH

cc: Mr. Kevin M. Friel
Mr. Thomas Crofcheck
Mr. Knowlton Atterbeary
Vanessa Atterbeary, Esq.
Mr. Patrick Boxall
William Winning, Esq.
James Schultz, Esq.

EXHIBIT 1

KRA Corporation
EARN Center Contracts
Schedule of Allowable Costs
For the Fiscal Year Ending June 30, 2008

	Germantown	Delancey	Total
Total Invoiced Expenses	$ 6,011,215	$ 4,140,084	$ 10,151,299
Less Unsupported Costs	(1,103,440)	(715,744)	(1,819,184)
Sub Total	$ 4,907,775	$ 3,424,340	$ 8,332,115
Audit Adjustments			
Support Services	(153,776)	(180,628)	(334,404)
Inappropriate Cost	(26,339)	(24,434)	(50,773)
Indirect Cost	(17,245)	(12,182)	(29,427)
Profit	22,157	(7,429)	14,728
Allowable Costs	$ 4,732,572	$ 3,199,667	$ 7,932,239
Total Unsupported/Adjusted	(1,278,643)	(940,417)	(2,219,060)

EXHIBIT 1

EXHIBIT 2

COZEN
O'CONNOR
ATTORNEYS

A PROFESSIONAL CORPORATION

1900 MARKET STREET PHILADELPHIA, PA 19103-3508 215.665.2000 800.523.2900 215.665.2013 FAX www.cozen.com

October 1, 2009

James Schultz
Direct Phone [redacted]
[redacted]@cozen.com

VIA E-MAIL
DAHIGGINS@STATE.PA.US

Mr. Dan Higgins
Audit Manager
Department of Public Welfare
Bureau of Financial Operations
801 Market Street - Room 5040
Philadelphia, PA 19107

Re: Response to Audit Requests

Dear Mr. Higgins:

This letter is in response to your inquiry regarding the reconciliation of the subcontractor expenditure summary to KRA's general ledger for contract number EC08-006 for reporting period 07/01/07 to 06/30/08.

In order to appropriately respond to this inquiry we must first note KRA's position regarding program income. In short, through an interpretation of the contract and course of dealing with PWDC, KRA understands that the program income portion of the contract is inapplicable to hybrid contracts with for-profit entities such as KRA. Moreover, it would be counterintuitive for a for-profit business to contractually agree not to make profit on work performed or to return or refund profit earned as a result of legitimate work performed pursuant to the contractual agreement. At no time did KRA ever have an expectation that it was to return any funds to PWDC as it related to profit and/or programming.

KRA recognizes that the Subcontractor Expenditure Summaries do not line up with the general ledger. First, the contract costs were not final at the time the forms were submitted. Second, KRA prepared the Subcontractor Expenditure Summaries taking into account the performance-based and bonus payments. KRA was unclear as to how to allocate performance-based and bonus payments. Had there been a line item for performance-based and bonus payments, KRA might have been better positioned to appropriately allocate it as a line item. Any inconsistencies between the Subcontractor Expenditure Summaries and the general ledgers were merely the result of mistakes on KRA's part or relative to the allocation of performance-

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based and bonus payments. KRA did the best it could in filling out this form within the tight time deadline and any errors in allocation of performance-based and bonus payments were certainly not intentional.

I hope this serves to clarify attempts to reconcile the general ledger and the Subcontractor Expenditure Summaries. If you have any questions or wish to discuss this matter further, please do not hesitate to contact me.

Very truly yours,

COZEN O'CONNOR

James D. Schultz
By: James Schultz

JDS
cc: Timothy Rausch, Auditor in Charge, Commonwealth of PA
(via email: trausch@state.pa.us)

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EXHIBIT 3

REPORT ON ALLEGATIONS OF MALFEASANCE IN THE OPERATION OF EARN CENTERS BY KRA CORPORATION

Prepared by the Transitional Workforce Division of PWDC

BACKGROUND:

KRA Corporation is a professional and technical services firm, headquarted in Silver Springs, Maryland. It provides a host of services, including job readiness, job development and program management. KRA obtained its first contract with PWDC in 2002 to operate a Work Opportunities Program. Since then, it has operated the following programs under contract with PWDC: Work Plus, SPOC, Post-SPOC, Job Specific Skills Training, and two EARN Centers, KRA Germantown and KRA Delancey. In the fiscal years, 2007-2008, both EARN Centers exceeded their performance benchmarks in all but job placement and ranked near the top of all EARN Centers in overall performance.

On March 5, 2009, KRA Delancey was asked to submit 11 files to PWDC to audit as part of the TANF sampling. Upon a preliminary review of one of the files, the PWDC staff noticed that the attendance forms were not the appropriate ones used for self initiated study, but were those used for regular job search. The staff also noticed that some forms appeared to have white-out over the dates, times and participant signature. The participant's signature was also missing from the time sheets and attendance logs. The PWDC staff copied this information from the file and indicated that the file was to be submitted as part of the TANF sampling. When the file was submitted several days later, all of the previously observed documents had been removed and were replaced with weekly job search logs and activity summary sheets. There was also a participant signature affixed to several documents, which upon further comparison to the participant's student ID signature, did not appear to match.

Approximately a week later, PWDC audited an additional 25 files at KRA Delancey and found similar discrepancies (apparent invalid signatures and duplicated job search logs). These issues were brought to the attention of the EARN Director, Tiffany Thompson and a meeting was requested to discuss them. A meeting was held on April 21, 2009 at which time copies of the invalid signatures and copied job search logs were shown to the Director. Ultimately, KRA's overall response was that their investigation was inconclusive because all employees involved in the matter had been terminated and a promise that corrective action would be taken.

Beginning in May, 2009 PWDC began to receive numerous complaints and anonymous communications from participants, former and current employees alleging wrongdoing on the part of KRA. These allegations included requests to falsify time and attendance records, statements that the EARN Center had a history of forging documents for participants at the direction of management, abuse of the wage subsidy program, nepotism and abuse of supportive service funds.

These allegations were shared with the president & CEO of KRA, Knowlton Atterbeary in letters dated June 15, 2009 and June 24, 2009 and included instructions to provide a written response by June 30, 2009. In a subsequent conversation with the president & CEO of PWDC, Mr. Atterbeary stated that he would not respond at the time, but would wait until PWDC concluded its investigation.

While the investigation is on-going, based on audits performed by PWDC staff, communications from various sources and conversations held with KRA staff, PWDC has concluded that there was malfeasance in the operation of the EARN Center by KRA. The allegations fall within several specific areas and are set forth below, along with our findings and reference to supporting documentation.

Allegation 1: Documents have been inserted into participant files that are created, forged or inauthentic.

Discussion

PWDC has received information from current and former employees at both EARN Centers operated by KRA Corporation and participants who were also employees at both EARN Centers (participant-employees) with regard to this allegation. The information accuses KRA Corporation of committing the following acts:

- Forging documents, including but not limited to paystubs, letters from employers, other employment verification and support for time and attendance such as job search logs
- Using business cards for the limited purpose of creating participant job search logs that were not true records of a client's participation in the program
- Using company letterhead and business logos from the internet for the limited purpose of creating employer verification letters that were not true records of a participants' employment and hours
- Forging signatures to support false employer verification
- Altering job search logs by name and date, copying and placing in multiple participant files
- Typing facsimile routing information at the top of the false employer letters to give the appearance that such documents had been faxed
- Faxing documents between two fax machines in order to give the appearance that paperwork was faxed from outside parties such as employers
- Forging participant signatures on required documents that include but are not limited to Kronos timesheets and job search logs
- Completing Work Certified tests for participants in order to elevate participant passing rates
- Creating participant files
- Submitting forged signatures and false documents to PWDC for TANF Sampling
- Completing assessment forms for participants who had not attended paid work experience worksites
- Completing new employment verification forms (EVFs) for participants that already had jobs when they arrived in order to claim the placement

PWDC EARN Staff also completed audits at KRA Delancey in March, May, June and July 2009 and obtained copies of documents contained in the participant files (See Appendix 1-5). PWDC also received several anonymous emails with information that prompted further review (See Appendix 6-21). Finally, former KRA Corporation employees submitted affidavits that included additional information. The documents cited within appear to support the following allegations:

- Forging documents, including but not limited to paystubs, letters from employers, other employment verification and support for time and attendance such as job search logs (See Appendix 22-24)
- Using company letterhead and business logos from the internet for the limited purpose of creating employer verification letters that were not true records of a participant's employment and hours (See Appendix 23, 25)
- Altering job search logs by name and date, copying and placing in multiple participant files (See Appendix 26-51)
- Typing facsimile routing information at the top of the false employer letters to give the appearance that such documents had been faxed (Affidavit pending)
- Faxing documents between two fax machines in order to give the appearance that paperwork was faxed from outside parties such as employers (Affidavit pending)
- Forging participant signatures on required documents that include but are not limited to Kronos timesheets and job search logs (See Appendix 52)
- Submitting forged signature and false documents to PWDC for TANF Sampling (See Appendix 53-87)
- Completing assessment forms for participants who had not attended paid work experience worksites (See Appendix 88-89) (Affidavit pending)
- Completing new employment verification forms (EVFs) for participants that already had jobs when they enrolled at the EARN Center enabling KRA to claim the placement (See Appendix 88-89) (Affidavits pending)

Finding: **KRA Delancey EARN Center forged participant job search logs and copied multiple bogus documents into several participant files. KRA Delancey EARN Center also caused documents to be signed as if participants had personally verified information, allowed participants to sign verifications when hours had not been completed and created false employment verification letters.**

Allegation 2: Participants have received poor customer service and false advice that is not in line with the Master Guidelines.

Discussion

PWDC received information from current and former employees at both EARN Centers operated by KRA Corporation, participant-employees as well as current program participants with regard to this allegation. The information accuses KRA Corporation of committing the following acts:

- Inviting and advising participants who had failed to participate to complete false job search logs and sign documents. KRA Delancey is accused of distributing incentives to these participants although they did not take part in the program

- Terminating participants for the express purpose of receiving additional payment benchmarks in a new contract year
- Failing to permanently hire several employees who were also program participants working under wage subsidy
- Assigning participants in paid work experience to perform outreach to other participants in lieu of regularly assigned activities
- Expressly terminating participants in order to avoid providing services

PWDC also received and investigated 18 participant complaints with regard to the issues below. The documents cited within appear to support the following allegations:

- Inviting and advising participants who had failed to participate to complete false job search logs and sign documents. KRA Delancey is accused of distributing incentives to these participants although they did not take part in the program (See Appendix 90-93) (Affidavit pending)
- Assigning participants in paid work experience to perform outreach to other participants in lieu of regularly assigned activities (See Appendix 94)
- Terminating participants without clear reason and/or cause (See Appendix 88-89) (Affidavit pending)

Finding: **Some participants at EARN Centers operated by KRA were subjected to poor customer service and treatment. Some participants received inaccurate and misleading information from EARN Center staff at KRA Delancey that was contrary to the Master Guidelines (see <u>2008-2009 BETP Master Guidelines</u> §§ I. (p. 3-5); VI. F. 1, 4, 5, 19, 20, 21 (p. 27-39), H. (p. 44); IX. B. 2-3 (p.99-100), C. 1-2 (p.100-101) and <u>2009-2010 BETP Master Guidelines</u> §§ Required Hours, Contractor Requirements p. 20-22, Record Keeping, Time Tracking Requirements p. 324, Case Management and Job Development, Case Management Responsibilities, p. 544 and Participant Tracking and Data Systems, Participant Records p. 614)**

Allegation 3: Supportive services have been improperly processed, granted and denied without following the process outlined in the Master Guidelines.

Discussion

PWDC received information from current and former employees at both EARN Centers operated by KRA Corporation, participant-employees as well as current program participants with regard to this allegation. KRA Corporation was accused of committing the following acts:

- Forging signatures that supportive services had been requested and/or received

- Misusing supportive service funding for the sale of personal items belonging to KRA Corporation personnel
- Misusing supportive service funding to facilitate a business transaction with a program participant
- Misusing supportive service funding for the purchase of facilities maintenance services
- Misusing supportive service funding to supplement the payroll/salary of a KRA Corporation employee and/or independent consultant
- Deliberate misrepresentation about supportive service funding to program participants
- Failure to make timely determinations on participant requests for supportive services

PWDC also received and investigated participant complaints with regard to the issues below. The documents cited within appear to support the following allegations:

- Misusing supportive service funding for the sale of personal items belonging to KRA Corporation personnel (See Appendix 26, 95-123)
- Misusing supportive service funding to facilitate a business transaction with a program participant (See Appendix 26, 95-123)
- Misusing supportive service funding to supplement the payroll/salary of a KRA Corporation employee and/or independent consultant (See Appendix 124-131)
- Deliberate misrepresentation about supportive service funding to program participants (Affidavit pending)
- Failure to make timely determinations on participant requests for supportive services (See Appendix 23)

Finding: **The EARN Centers at both Delancey and Germantown have improperly processed, granted and denied supportive services to participants in violation of the Master Guidelines. (See 2008-2009 BETP Master Guidelines § X. (p. 111-114) and 2009-2010 BETP Master Guidelines § Supportive Services, Rules and Regulations for Supportive Services (p. 185-191, 195-209)**

Allegation 4: Documents have been removed from participant files with the intent of concealing and/or obscuring information.

Discussion

PWDC received information from current and former employees at both EARN Centers operated by KRA Corporation, participant-employees as well as current program participants with regard to this allegation. KRA Corporation was accused of committing the following acts:

- Removing participant files from the EARN Center for the express purpose of reporting the files missing
- Removing participant files from the EARN Center for the express purpose of creating new participant files with false and forged information
- Deliberately removing, shredding and disposing of forged documents, business cards and other false information to prepare for audit

The documents cited within appear to support the following allegation:

- Deliberately removing, shredding and disposing of forged documents, business cards and other false information to prepare for audit (See Appendix 132-143) (Affidavit pending)

Finding: **KRA Delancey EARN Center has caused documents to be removed from participant files to prepare for audit.**

Allegation 5: KRA Corporation improperly benefited from the subsidized wage program.

Discussion

PWDC received information from current and former employees at both EARN Centers operated by KRA Corporation and participant-employees with regard to this allegation. KRA Corporation was accused of committing the following acts:

- Using the subsidized employment program to hire program participants in violation of the Master Guidelines
- Utilizing two staffing agencies to hire program participants
- Offering wage subsidy to employers that deliberately attempted to circumvent the rules and guidelines associated with the program
- Knowingly accepting false supporting documentation in order to facilitate reimbursement from PWDC
- Knowingly continuing wage subsidy with an employer that terminates program participant upon six month retention

PWDC reviewed KRA Corporation's use of the wage subsidy program with regard to [redacted] and the affected participant-employees. Although contractors have been continuously disallowed to enter into subsidized wage agreements with themselves, KRA Corporation appears to have reached the same results using third party staffing agencies. KRA contracted with [redacted] Staffing to hire and place program participants at both KRA Germantown and Delancey EARN Centers. KRA was advised to end this practice and in March 2009, the remaining participant-employees were hired through [redacted] and continued employment at the KRA Germantown and Delancey EARN Centers locations.

The subsidized wage program was not designed nor intended to fund budgeted positions through TANF contracts. This inappropriate use of TANF dollars may generate program income which must ultimately be returned. Our review shows that KRA budgeted for some if not all of the positions filled by the participant-employees. Additionally, EARN Centers are expressly forbidden to continue wage subsidy agreements with employers that do not retain participants after the subsidy ends. Out of more than twenty program participants hired as employees, it appears as though only one participant continues to be employed by KRA Corporation (or [redacted] to date. (See Appendix 142-143)

Finding: **KRA Corporation used the services of two staffing agencies, [redacted] Staffing and [redacted] to improperly hire program participants using the wage subsidy program.**

Allegation 6: EARN Centers operated by KRA Corporation regularly entered false information into applicable electronic systems such as CAPS, Kronos and CWDS.

Discussion

PWDC received information from current and former employees at both EARN Centers operated by KRA Corporation and participant-employees with regard to this allegation. KRA Corporation was accused of committing the following acts:

- Recording time and attendance in Kronos for participants that did not participate
- Transferring WSC participants to CDC prior to the deadline in violation of the Master Guidelines
- Recording employment for participants that did not take jobs

PWDC also received and investigated a participant complaint and a case record that supported the following allegations:

- Recording time and attendance in Kronos for participants that did not participate in the program (See Appendix 146-149)
- Recording employment for participants that did not take the jobs (See Appendix 23)

Finding: **Both KRA EARN Centers caused false data to be input into the various electronic systems required for contract monitoring.**

SUMMARY: The findings listed in the previous section are based on the information gathered to date and are subject to change pending further inquiry. After investigating the various complaints and allegations of wrongdoing on the part of KRA in the operation of both KRA Delancey and KRA Germantown EARN Centers, there appears to be wide-spread and on-going fraudulent manipulation of

client file documents, ostensibly to meet performance goals associated with the operation of the EARN Centers. As a result, although these EARN Centers were cast as high performers, performance benchmarks and payments made to KRA based on meeting said benchmarks may be in question. Further analysis and investigation will be necessary to determine if KRA was unjustly enriched by any fraudulent actions. KRA should be given an opportunity to respond to these findings.