pennsylvania
DEPARTMENT OF PUBLIC WELFARE

June 18, 2013

Mr. Donavan West, Director of Operations
People for People, Inc.
800 N. Broad Street
Philadelphia, Pennsylvania 19130

Dear Mr. West:

I am enclosing the final report of the People For People, Inc. audit 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 for all the courtesy extended to my staff during the course of fieldwork. I understand that you were especially helpful to Barbara Miller in expediting the audit process.

The final report will be processed by the Office of Income Maintenance (OIM). 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 David Bryan, Audit Resolution Section, at (717) 783-7217.

Sincerely,

Tina L Long

Tina L. Long, CPA
Director

Enclosure

c: Ms. Karen Deklinski
Ms. Lourdes Padilla
Mr. Andy Tiazkun
Mr. Nathan Brown
Ms. Tamila Lay

bc: Mr. Alexander Matolyak
Mr. Daniel Higgins
Mr. David Bryan
Mr. Michael A. Sprow
Ms. Shelley L. Lawrence
SEFO Audit File (S1203-K51)

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.

June 18, 2013

The Honorable Beverly Mackereth
Acting Secretary of the Department of Public Welfare
Health & Welfare Building, Room 333
Harrisburg, Pennsylvania 17120

Dear Acting Secretary Mackereth:

In response to a request from the Office of Income Maintenance (OIM), the Bureau of Financial Operations (BFO) initiated an audit of People for People, Inc. (PFP). The audit of PFP's Employment, Advancement, and Retention Network (EARN) Center was designed to ensure that proper documentation was contained in client files to support the claims paid by Philadelphia Works, Inc. (PWI), to verify that expenses incurred were appropriate for reimbursement, and to verify repayment of prior audit disallowances. The Audit Period was the fiscal years ended June 30, 2011 and June 30, 2012.

This report is currently in final form and therefore does contain PFP's views on the reported findings, conclusions and recommendations.

Executive Summary

PFP is a not for profit agency located in Philadelphia Pennsylvania. PFP administers an EARN Center, Charter School, a day care center, The Pregnancy Hope Center, and are a related entity to the Greater Exodus Baptist Church.

A settlement agreement was established between PWI (formerly known as the Philadelphia Workforce Development Corporation, Inc.) and PFP. The settlement states that PFP is to repay $803,000 for prior audit disallowances taken by DPW. Beginning in May 2010 and extending for a 48 month period, PFP is to repay $16,729.17 per month. As of June 30, 2012, PFP is current on its repayments to PWI.

Based on the findings detailed in this report, PWI should recover an additional $67,016 from PFP.

The report findings and recommendations for corrective action are summarized below:

FINDINGS	SUMMARY
Finding No. 1 – An Analysis of PFP's Customer Performance Benchmarks Revealed That Some Claims Lacked Adequate Documentation.	Our analysis identified several instances where supporting documentation such as timesheets or paystubs were not available. As a result, the hours worked could not be substantiated and the claims were disallowed. The total disallowance for the unsubstantiated time is $13,173.

HIGHLIGHTS OF RECOMMENDATIONS
PWI should: • Recover the $13,173 in overbillings related to unsubstantiated performance payments. PFP should: • Ensure all performance payments are supported by adequate documentation.

FINDINGS	**SUMMARY**
Finding No. 2 – PFP Was Over Paid $8,403 in Salary Expense for Fiscal Year Ended June 30, 2011	For the fiscal year ended June 30, 2011 PFP's total salary expense, as detailed in the general ledger, was $8,403 less than the amount reimbursed by PWI. Total reimbursements cannot exceed total actual expense.
HIGHLIGHTS OF RECOMMENDATIONS	
PWI should: • Recover the $8,403 for the fiscal year ended June 30, 2011.	

FINDINGS	**SUMMARY**
Finding No. 3 - PFP Claimed Undocumented Expenses And Could Not Fully Support Other Accounting Entries.	Two journal entries posted in December 31, 2011 increased expenses to several accounts. There was no supporting documentation which could be tied into the amounts charged. The total of these two entries was $45,440. Additionally, occupancy expenses charged could not be tied back to PFP's cost allocation plan. Finally, for fiscal year ended June 30, 2012, PFP total expenses were less that PWI's reimbursements resulting in program income[1]of $68,290.
HIGHLIGHTS OF RECOMMENDATIONS	
PWI should: • Recover the $45,440 in undocumented expenses charged at December 31, 2011. PFP should: • Ensure that proper documentation is maintained to support all expenses charged to the program. • Ensure that occupancy costs charged to the EARN Center are in accordance with the cost allocation plan.	

FINDING	**SUMMARY**
Finding No. 4 - PFP Has Not Completed It's Required Financial Audits in a Timely Manor	PFP is required by contract to submit an independent financial audit within 120 days of their fiscal year end. PFP has not submitted an audit for the fiscal year ended June 30, 2011 and June 30, 2012.

[1] Program income is considered the excess revenue over expense.

HIGHLIGHTS OF RECOMMENDATION
PWI should: • Continue to work with PFP to ensure the audits are completed timely. If audits are outstanding beyond a reasonable period of time, implement contract provisions that result in the withholding of payment to PFP. PFP should: • Ensure its independent auditors complete its audits in a timely manner. If not, PFP should find an auditing firm who can meet the contract requirements in a timely manner.

FINDING	SUMMARY
Finding No. 5 – The Work Retention Verification Process Was Deficient	The work retention verification process implemented by the DPW was not adequate and did not provide sufficient confirmation of actual employment, completion of the retention period, or the identity of the individual being contacted.
HIGHLIGHTS OF RECOMMENDATIONS	
OIM should: • Strengthen its verification process by requiring documentation such as a final pay stub to corroborate the Retention period. • Require the EARN Centers to verify and document the Retention period as part of their performance benchmark requirement.	

FINDING	SUMMARY
Finding No 6 - Many Individuals Never Gain Employment Resulting in Self-Sufficiency	It was noted that many individuals enroll, terminate and re-enroll on a regular basis without ever gaining employment resulting in self-sufficiency. OIM has changed its policy regarding re-enrollment as of July 1, 2012 limiting the number of times an individual can re-enroll in the program.
HIGHLIGHTS OF RECOMMENDATIONS	
OIM should: • Continue to monitor individuals who terminate prior to completion of the program and ensure new program requirements are properly administered.	

OBSERVATION	SUMMARY
PFP Does Not Have a Chief Financial Officer	PFP, as a whole, is a $22 million organization. They do not have adequate financial staff to manage an organization of that size.

Background

PFP is a not for profit agency located in Philadelphia Pennsylvania. They operate an EARN Center, Charter School, a day care center, The Pregnancy Hope Center, and are a related entity to the Greater Exodus Baptist Church.

The DPW contracts with PWI, who in turn contracts with the EARN Center. Forty percent (40%) of the reimbursement is based on actual cost, while the remaining 60% includes payments for meeting performance benchmarks as well as a lump sum payment for Key Staff. Starting in January 2012, reimbursement changed to 100% actual program cost; however, PFP was still required to report on its performance benchmarks. During the Audit Period, PFP's contract contained three benchmarks; Activity Compliance Rate (ACR), Work Activity Rate (WAR) and 6-month Employment Retention (Retention).

The ACR and WAR benchmarks were based on an individual's time and attendance in specific program activities such as Job Search, Vocation Specific Training, Paid Work Experience, Community Service, Subsidized Employment and Unsubsidized Employment. Individuals' performance in the benchmark categories was documented based on timesheets completed by the program participant; the number of required hours is determined by the individuals' household size. An individual with a child under age six is required to work 20 hours per week, while an individual with no children or children over age six is required to work 30 hours per week. The Retention benchmark is met when an individual works at least 20 hours per week for six months and employment was verified by [redacted] a third party contractor.

[redacted] was contracted by the Department of Public Welfare (DPW) to provide an independent verification of individuals' performance against the Retention benchmark. The EARN Center would send [redacted] the names of its participants who completed six months of employment. [redacted] would contact these individuals and ask if they had worked for six months, whether health insurance had been offered, and verified the pay rate. [redacted] was not required to contact employers or ask for any identification from the individuals.

For Fiscal Year 2012/2013, OIM made significant changes to the program requirements. Those changes include such items as: limiting the number of times an individual can re-enroll in the program, requiring the EARN Centers to account for every hour an individual participates in the program, and requiring all paystubs to be submitted for verification of employment and retention.

Objectives/Scope/Methodology

The audit objectives, developed in concurrence with OIM were:

- To determine that PFP is properly maintaining client files and has sufficient documentation to support the performance benchmarks as required through contract with PWI for fiscal years ended June 30, 2011 and June 30, 2012.

- To determine that expenses charged to the EARN Program are appropriate, equitable and properly allocated based on PFP's cost allocation plan.

In pursuing these objectives, the BFO interviewed OIM personnel and PFP's management. We also examined accounting records, client files, time records, and other pertinent data necessary to pursue the audit objectives.

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 those controls. Based on our understanding of the controls, material deficiencies in record retention came to our attention. Areas where we noted an opportunity for improvement in management controls are addressed in the findings of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The BFO's fieldwork was conducted intermittently from September 24, 2012 to November 29, 2012 and was performed in accordance with generally accepted government auditing standards. This report is available for public inspection.

Results of Fieldwork

Finding No. 1 – An Analysis of PFP's Customer Performance Benchmarks Revealed That Some Claims Lacked Adequate Documentation.

PFP was paid on a monthly basis for meeting performance benchmarks. Each month's payment was dependent on PFP's performance in three separate performance benchmark categories: ACR, WAR and Retention. ACR and WAR payments were statistically sampled for September 2010 and August 2011; Retention claims were examined in total for both September 2010 and August 2011.

The BFO analyzed the supporting documentation for the sampled payments. PFP documented the number of hours an individual worked by keeping timesheets in the individual's client file. Timesheets were either manually written or electronically generated by the individual clocking in and out when they arrive and leave the EARN Center. Timesheets were required to be signed by the individual and a case manager. However, timesheets for individuals participating in an employment activity were pre-populated for up to six months based on the number of hours shown on the individual's first paystub.

Our examination of client files identified several instances where timesheets and/or paystubs were not available or where hours worked did not meet the number of hours required for the individual. The identified error amounts were extrapolated over the total of each individual benchmark. As such, separate error rates were calculated for ACR, WAR and Retention for each month tested, resulting in a total overpayment of $13,173; $9,767 related to September 2010 and $3,406 related to August 2011.[2]

Recommendations

The BFO recommends that PWI recover the $13,173 in overbilling related to performance payments that were not sufficiently supported.

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[2] The overpayment amount was extrapolated based on a Statistically Valid Random Sample. An individual error rate was calculated for each sample and applied to the respective universe of payments.

The BFO also recommends that PFP ensure that all performance payments are supported by the required documentation such as timesheets showing the required number of hours as well as paystubs to support the total hours worked.

Finding No. 2 – <u>PFP Was Over Paid $8,403 in Salary Expense for Fiscal Year Ended June 30, 2011</u>

Total EARN Center salaries for the fiscal year ended June 30, 2011, as reported in the General Ledger, were less than the total PWI salary reimbursements by $8,403. The total amount reimbursed by PWI must not exceed the total actual expenses incurred by the EARN Center. As a result, PFP generated program income related to salary expenses.

<u>Recommendation</u>

The BFO recommends PWI recover $8,403 in program income identified in fiscal year ended June 30, 2011 related to EARN Center salary expenses.

Finding No. 3 – <u>PFP Claimed Undocumented Expenses and Could Not Fully Support Other Accounting Entries in Fiscal Year Ended June 30, 2012</u>

As a part of our analysis of PFP's financial data, we identified two journal entries made at December 31, 2011 that increased expenses. PFP's fiscal staff has not been able to provide sufficient documentation to support the expenses charged through these journal entries. The journal entries include several accounts as detailed below.

[redacted]	$ 7,690
[redacted]	12,113
[redacted]	449
[redacted]	402
[redacted]	6,795
[redacted]	15,599
[redacted]	2,392
Total	$45,440

In addition to the above undocumented expenses, PFP was not able to document how they allocated occupancy expenses. PFP has a cost allocation plan (CAP) based on square footage, which is used to allocate occupancy costs. However, using the methodology detailed in the CAP, occupancy costs charged in the general ledger could not be traced back to the cost pool identified in the CAP and PFP was unable to adequately support the total costs stated and indicated that the CAP provide may not be current. EARN Center occupancy costs calculated in accordance with the CAP exceeded the amount posted in the general ledger and reimbursed by PWI. As such, no payment recovery is recommended due to the fact that occupancy cost was incurred by PFP and the amount invoiced PWI was less than the amount detailed in the available CAP.

Finally, fiscal year 2011/2012 interim reimbursements exceed allowable expenses by $68,290 resulting in program income. This amount was subsequently recovered by PWI.

Recommendation

The BFO recommends that PWI recover the $45,440 in undocumented expenses charged at December 31, 2011.

The BFO also recommends that PFP ensure proper documentation is maintained to support all expenses charged to the program.

The BFO further recommends that occupancy costs charged to the EARN Center are in accordance with the cost allocation plan.

Finding No. 4 – PFP Has Not Completed It's Required Financial Audits in a Timely Manor

As stated in its contract with PWI, PFP is required to submit a financial audit to PWI within 120 days of the close of the contract. As of the close of fieldwork, PFP's audit was not completed for the fiscal year ended June 30, 2011. Management stated that the audit is under way, but it had not been finalized. Once the June 30, 2011 audit is completed, work can begin on the June 30, 2012 audit which should have been submitted to PWI as of October 31, 2012.

Recommendation

The BFO recommends that PWI work with PFP to ensure timely completion of audits in accordance with the contract requirements.

The BFO also recommends that PWI implement contract provisions that result in the withholding of payment to PFP if audits are outstanding beyond a reasonable period of time.

Additionally, the BFO recommends that PWI enhance contract language to include monetary penalties for audits that are outstanding beyond a reasonable period of time.

Finally, the BFO recommends that PFP work with its independent auditors to ensure the audits are completed in a timely manner. If their current auditing firm cannot complete the audits in accordance with contract requirements, PFP should consider hiring a different auditing firm.

Finding No. 5 – The Retention Verification Process Was Deficient

The process implemented by the DPW to verify completion of the work retention period was not adequate and did not provide sufficient confirmation of actual employment, completion of the retention period, or the identity of the individual being contacted.

The DPW contracted with [redacted] to verify that individuals completed the Retention period. However, [redacted] was not required to contact the employer, or make any attempt to verify the identity of the individuals they were interviewing. [redacted] received names of individuals from the EARN Centers once the individuals had completed the Retention period. [redacted] would then call the individuals to verify the information that the EARN Center had provided. Individuals were not required to provide any new information, appear in person, or provide paystubs to [redacted] The individuals simply verified the information that [redacted] stated to them. Once [redacted] spoke with the individuals, they conveyed the results to the EARN Center and, if appropriate, the EARN Center could then include the individuals on the EARN Center's Retention invoice to PWI.

DPW's contract with [redacted] for the fiscal year ended June 30, 2012 totaled $231,440.

<u>Recommendation</u>

The BFO recommends that DPW strengthen its verification process by requiring documentation such as all paystubs to corroborate the Retention period.

Additionally, the BFO recommends that the EARN Center conduct and document the Retention verification, and submit the documentation to PWI to support their performance benchmark payment rather than incurring the additional cost of the third party verification.

Finding No. 6 – <u>Many Individuals Never Gain Employment Resulting in Self-Sufficiency</u>

In our inspection of client files, it was noted that some individuals enroll, terminate and re-enroll on a regular basis, without ever gaining employment resulting in self-sufficiency. In discussions with PFP management, it was noted that during the Audit Period, there were no limits to how many times an individual could enroll in the program and there were no sanctions if the individual did not complete the program. Additionally, when an individual terminated, they simply went back to the County Assistance Office (CAO) and the CAO would send them back to the EARN Center to start over again.

The goal of the EARN program is to assist individuals in gaining employment and eventually becoming self-sufficient. We noted that a number of individuals participate for a while then terminate and start over; through this process they never lose their cash and/or SNAP benefits and never gain sustainable employment.

OIM has strengthened the requirements for re-enrollment. Currently, if an individual does not terminate for "good cause" (i.e. medical, child care, or other emergency situations), they cannot return to the EARN Center for one year. However, this requirement will only be effective if it is enforced.

<u>Recommendation</u>

The BFO recommends that OIM continue to monitor individuals who terminate prior to completion of the program and ensure that the CAO staff is correctly applying the new requirements related to terminations.

Observation – <u>PFP Does Not Have a Chief Financial Officer</u>

PFP, as a whole, is a $22 million organization. PFP has two accounting staff who report to the program director. They do not have the accounting staff on site to manage an organization of this size. There needs to be someone with a financial background providing day to day supervision and management of PFP's financial matters. There are several findings in this report that could have been avoided if PFP had a qualified Chief Financial Officer (CFO) on their staff (see Finding Nos. 2, 3, and 4). A CFO could manage the higher-level accounting and financial functions and provide direction to the current accounting staff. Based on conversations with management, it appears that the higher-level financial decisions are made by consultants and staff who do not have a financial background.

Exit Conference/Summary

On June 6, 2013 an Exit conference was held to discuss PFP's response to BFO's audit findings. PFP presented additional documentation related to its performance benchmark payments; as such, an adjustment to the recommended disallowance in Finding No 1 was made.

PFP's response to the draft audit report stated that expenses related to Printing and Publications of $7,690 (Finding No. 3) were chargeable to the EARN program and should not be removed from the EARN Center's allowable costs. However, subsequent to preparing the audit response, PFP management determined that these costs should not have been charged to the EARN program and were properly included in the audit adjustment.

Conclusion on the Objectives

In conclusion, the BFO recommends that PWI recover $67,016 from PFP for the fiscal years ended June, 30, 2011 and June 30, 2012. As indicated by the six findings and one observation, PFP had some deficiencies in maintaining client files and did not always have sufficient documentation to support the performance benchmarks as required through its contract with PWI. In addition, expenses charged to the EARN Program were not always appropriate, equitable and properly allocated based on PFP's cost allocation plan.

In accordance with our established procedures, an audit response matrix will be provided to OIM. OIM is responsible for completing the matrix within 60 days and emailing the Excel file to the DPW Audit Resolution Section at:

RA-pwauditresolution@pa.gov

The response to each recommendation should indicate OIM's concurrence or non-concurrence, the corrective action to be taken, the OIM staff responsible for the corrective action, the expected date that the corrective action will be completed, and any related comments.

Sincerely,

Tina L Long

Tina L. Long, CPA
Director

c: Ms. Karen Deklinski
Ms. Lourdes Padilla
Mr. Andy Tiazkun
Mr. Nathan Brown
Ms. Tamila Lay
Mr. Donavan West

bc: Mr. Alexander Matolyak
Mr. Daniel Higgins
Mr. David Bryan
Mr. Michael A. Sprow
Ms. Shelley L. Lawrence
SEFO Audit File (S1203 – K51)

PEOPLE FOR PEOPLE, INC

RESPONSE TO THE DRAFT REPORT

APPENDIX A

People For People, Inc.

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

Re: Response to Draft Performance Audit report

Preface

We are honored that for over two decades People for People has delivered social services to over 80,000 individuals; provided early childhood education to over 1,100 children and quality education to over 5,000 k-8 students through People For People Charter School; assisted about 700 after school participants in remedial math and reading and transitioned 200 adults into college through the accredited People For People Institute. Since its inception, PFP has invested over $200 million in the Philadelphia community.

As our responses will indicate, we have examined every programmatic and financial procedure to ensure that we are in line with all federal policies and procedures. In addition, People For People has secured the services of [redacted], a fiscal intermediary and systems management firm, to consult with our finance and operations team to strengthen us in all areas of grant and financial management.

This document contains PFP's response to the "draft" audit report prepared by the Division of Audit Review (DAR) and a specific response to the 6 findings and recommendations questioning $68,680.00 of performance revenue. PFP is providing a detailed disposition and additional context for our position on the draft audit findings and subsequent recommendations.

Finding 1 – An analysis of PFP's Customer Performance Benchmarks Revealed that Some Claims Lacked Adequate Documentation

Finding 5 – The Work Retention Verification Process Was Deficient

Response to Finding 1 & Finding 5:

During the time in review, PFP employed the use of the work retention verification process as approved by the Department of Public Welfare (DPW) and implemented by our contractor, Philadelphia Workforce Development Corporation (PWDC) now referred to as Philadelphia Works Inc (PWI). Due to the allowance and frequent modification of varying forms of supporting documentation for performance benchmarks, admittedly there were several but rare instances whereby the documentation didn't meet the standard of DAR despite meeting the contractor's approval on separate occasion. Further assessment by the DAR uncovered various inconsistencies that rendered a finding of the process being inadequate for providing the state sufficient confirmation of employment.

Unfortunately, the lack of traditional benchmark-securing resources coupled with the absence of a uniform and structured process; missteps were taken towards further documenting performance outcomes within the existing yet often reframed, framework. PFP has since taken the opportunity to strengthen its internal systems to ensure the complete acquisition of proper documentation to support performance payments and benchmark requirements. Unfortunately, at the time of the audit, PFP was not given an opportunity to demonstrate its process and it was incorrectly inferred that an efficient process was not in place. Staff is prepared to share this information with both the BFO and PWI as necessary.

In addition to PFP improving its processes, organization-wide policy and procedure changes have been implemented with the focus of securing greater performance documentation efficiencies in an effort to support PFP's spirit of continuous improvement.

Lastly, in Attachment A, you will find additional supporting documentation for customers initially disallowed in the sampling. These records will meet supporting documentation standards, thus qualifying PFP for payment and reducing the balance of the finding.

Finding 2 – PFP Was Over Paid $8,403 in Salary Expense for Fiscal Year Ended June 30, 2011

Response to Finding 2:

People For People concurs with this finding. During the program year there were a series of personnel adjustments facilitated in an effort to ensure program performance. The various staffing adjustments created resulted in this inadvertent error.

Finding 3 – PFP Claimed Undocumented Expenses And Could Not Fully Support Other Accounting Entries

Response to Finding 3:

PFP partially contests the amount of $45,440 disallowed expenses. Of the expenses listed as undocumented, $7,690 (or 17%) are shared expenses that have been improperly disallowed. This is the total amount minus the $37,750 'additional utilities' expense that was disallowed.

PFP accepts that the documentation to support the journal entries is unclear in supporting the allocation matrix of expenses incurred December 31, 2011. PFP is committed to the recommendation to ensure proper documentation of all expenses charged to PWI.

Finding 4 – PFP Has Not Completed Its Required Financial Audits in a Timely Manner

Response to Finding 4:

PFP understands the importance of complying with contract standards of the contractors. To that end PFP works diligently with its independent auditor to ensure the audits are completed in a timely manner. Additionally PFP will communicate with PWI to ensure timely completion of audits in accordance with the contract requirements.

Finding 6 –Many Individuals Never Gaining Employment Resulting in Self-Sufficiency

Response to Finding: PFP concurs with this finding. Recent adjustments to the guidelines have required for additional measures be taken to ensure "negatively-terminated" customers are addressed with more significant penalties for lack of participation or non-compliance.

In other scenarios where it is clearly documented that a customer is experiencing barriers to employment and/or participation, a temporary exemption issued. This is largely due to the barrier being outside of their control, case narratives and collaborations. PFP is aware of the additional requirements for termination documentation, and regularly provides the CAO the necessary paperwork to ensure the proper reenrollment of customers into the EARN Center.

Please contact me should you have any additional inquiries.

Regards,

Donavan S. West
Director
People For People