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May 4, 2012

Michael J. Paul, President and CEO  
Goodwill Industries of Santa Cruz, Monterey and SLO Counties  
Workforce Investment Act Services  
350 Encinal St.  
Santa Cruz, CA 95060

RE: WORKFORCE INVESTMENT ACT  
FISCAL AND PROCUREMENT REVIEW  
FINAL MONITORING REPORT  
PROGRAM YEAR 2011-12

Dear Mr. Paul:

This report is to inform you of the results of our review for Program Year 2011-2012 of the Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties Workforce Investment Act Services (Goodwill Industries) grant financial management and procurement systems. For the fiscal portion of this review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal controls, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring, single audit and audit resolution policies and procedures, and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, contract terms and agreements, and property management if available.

Our review was conducted under the authority of Section 667.410 (b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by Goodwill Industries with applicable federal and state laws, regulations, policies, and directives related to the Workforce Investment Act (WIA) grant regarding financial management and procurement for Program Year 2011-2012.

We collected the information for this report through interviews with representatives of Goodwill Industries, a review of applicable policies and procedures, and a review of documentation retained by Goodwill Industries for a sample of reimbursement claims, expenditures and procurements for Program Year 2011-2012.

## BACKGROUND

Goodwill Industries was awarded One-Stop Operator WIA Adult and Dislocated Worker, funds from the County of San Luis Obispo in the amount of \$1,251,602 to provide One-Stop system publicity and promotion activities; outreach and recruitment services; and One-Stop career centers facility management and maintenance for FY 2011-2012.

For the first half of fiscal year 2011-12, Goodwill Industries reported expenditures of \$555,163 for the WIA programs.

## FISCAL REVIEW RESULTS

We identified one area of fiscal noncompliance with the contract which is discussed in the finding listed below and must be addressed by management.

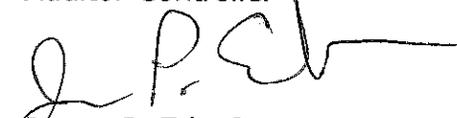
Requirement:	The Program Year 2011-12 Contract between Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties Workforce Investment Act Services and the County of San Luis Obispo Department of Social Services requires that Goodwill Industries be reimbursed for all necessary and reasonable costs incurred on behalf of the County within the limits obligated by the contract and established by the budget and budget narrative.
Observation:	We determined that \$15,248 of costs, which were not established in the contract by the line-item budget were reimbursed to Goodwill Industries.
Cause:	Goodwill Industries invoiced the County for \$15,248 of allocated Industrial Way facility rent which was not established by the line-item budget.
Effect:	Goodwill Industries included \$15,248 of rental costs which are allowable, but were not identified in the line-item budget. Goodwill Industries has invoiced for 71% of the rental budget as of January 31, 2012 (58% of the fiscal year).
Recommendation:	Goodwill Industries must not exceed the approved line-item budget for rental expense. Going forward, Goodwill Industries must clearly identify in its budget proposal costs for which it expects to be reimbursed during the fiscal year covered by the contract.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all the areas included in our review. It is Goodwill Industries' responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, remain Goodwill Industries' responsibility.

Goodwill Industries indicated that the approved line-item budget will not be exceeded without Department of Social Services written permission and that in the future, Goodwill Industries will clearly identify budget proposal costs which are expected to be reimbursed during the fiscal year covered by the contract, resolving the issue above.

We would like to thank Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties and your staff for their cooperation and assistance during our review. We also appreciate the attention the Goodwill staff has dedicated to addressing previous recommendations. If you have any questions regarding this report or the review that was conducted, please contact Kerry Bailey at (805) 788-2979 or Matt Purkiss at (805) 781-5099.

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