

County of San Luis Obispo
Office of the Auditor-Controller
1055 Monterey Street Room D220
San Luis Obispo, California 93408
(805) 781-5040 FAX (805) 781-1220



GERE W. SIBBACH, CPA

JAMES P. ERB, CPA, *Assistant*
LYDIA CORR, CPA, *Deputy*
JAMES HAMILTON, CPA, *Deputy*
Email auditor@co.slo.ca.us

December 15, 2011

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
FOLLOW-UP MONITORING REPORT
PROGRAM YEAR 2010-11

Dear Mr. Paul:

This follow-up report is to inform you of the results of our review for Program Year 2010-2011 of the Goodwill Industries of Santa Cruz, Monterey and San Luis Obispo Counties Workforce Investment Act Services (Goodwill Industries) grant financial management. For this review, we focused on the implementation of the Response/Action Plan submitted by Goodwill Industries on July 21, 2011 in response to the recommendations outlined in the Fiscal and Procurement Review Monitoring Report Program Year 2010-2011 dated June 15, 2011.

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 follow-up review was to determine whether Goodwill Industries implemented the recommendations identified in the Fiscal and Procurement Review Monitoring Report Program Year 2010-2011 dated June 15, 2011, as well as the Corrective Action Plan submitted by Goodwill Industries on July 21, 2011.

We collected the information for this report through interviews with representatives of Goodwill Industries, and a review of documentation retained by Goodwill Industries for a sample of reimbursement claims and expenditures for the months July-September, 2011.

BACKGROUND

The County of San Luis Obispo Auditor-Controller's Office has a policy of conducting follow-up reviews when issues or findings are identified to determine whether the recommendations have been implemented correctly and timely. During our prior review we identified three areas of noncompliance and provided recommendations which would assist Goodwill Industries in complying with their contract with the County of San Luis Obispo Department of Social Services.

PREVIOUS FINDINGS & FOLLOW-UP RESULTS

FINDING 1

Requirement: County of San Luis Obispo Department of Social Services Policy 16-08, Monthly Financial Reporting Requirements and Exhibit B-2, 4.h, Accounting System, of the FY 10-11 renewal contract between Goodwill Industries and the County of San Luis Obispo Department of Social Services require the service provider to report expenditures on an accrual basis.

Observation: We determined expenditures were not accrued for the two quarters reviewed: July-September 2010 and October-December 2010.

Cause: Management at Goodwill Industries stated personnel at the corporate office do not accrue expenditures. Because the accounting books are not closed at month-end, it is common practice for staff to back-date entries to prior months rather than to post accruals.

Effect: Back-dated expenditures create additional costs in months that have been previously invoiced. As a result, the accountant invoices these costs in subsequent months. No adjustment log is maintained. Nor was any type of sufficient audit trail in place to make it possible for us to precisely re-create the reimbursement claim amounts submitted to the County by Goodwill Industries. As a result, an accurate representation of expenditures and supporting documentation for monthly invoicing is unavailable.

Recommendation: Goodwill Industries must comply with the Department of Social Services' policy and the contract, and accrue appropriate expenditures for each month of reporting and invoicing. Best accounting practices dictate the accounting records be closed within a reasonable period such as ten days after the end of the month, and no additional entries for that month should be allowed. Known expenses such as salaries or services that have not been paid by month end should be accrued so the expense matches the period it was incurred.

Follow-up Results: We determined Goodwill Industries accrued employee salaries and other appropriate operating expenditures.

FINDING 2

Requirement: The FY 09-10 contract between Goodwill Industries and the County of San Luis Obispo Department of Social Services, Exhibit B-2, section 12.d, states the Contractor agrees to complete a close-out package for the period of the contract within 30 days after the ending date of the contract.

Observation: We determined the Contractor did not complete an accurate final invoice.

Cause: Goodwill Industries did not record expenditures as required for the month of June 2010 (see Finding 1 above). Expenditures continued to be recorded after the accounting books should have been closed for the month.

Effect: \$22,504.83 of FY 2009-10 expenditures were reimbursed with funds from the FY 2010-11 contract.

Recommendation: Goodwill Industries must repay the \$22,504.83 of reimbursed funds. Expenditures must be accrued, and a close-out package must be completed for the period of the contract within 30 days after the ending date of the contract.

Follow-up Results: We verified Goodwill Industries repaid the \$22,504.83 of reimbursed funds on August 17, 2011. As noted in Finding 1, Goodwill Industries is appropriately accruing expenditures. A close-out package is not yet required, however, Goodwill Industries is aware of grant close-out procedures.

FINDING 3

- Requirement: Office of Management & Budget Circular Number A-122, subparagraph 8.m.(1) states "The distribution of salaries and wages to awards must be supported by activity reports. . ." Subparagraph 8.m.(2)(a) continues that "Reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards."
- Observation: We determined some salary reimbursements were based on FTEs allotted in the FY 2010-11 contract rather than actual time allocated to the WIA and ARRA programs.
- Cause: Management at Goodwill Industries stated the payroll service ADP was unable to identify the amounts allocated to various government programs, and that it would be too onerous for Goodwill Industries staff to calculate the amounts prior to invoicing.
- Effect: Salary and wage reimbursements are made based on estimates, rather than actual time allocated to the WIA and ARRA programs.
- Recommendation: Goodwill Industries must comply with the Office of Management & Budget Circular Number A-122 when requesting salary and wage reimbursements for time allocated to the WIA and ARRA programs.
- Follow-up Results: We determined salary reimbursements were based on actual time allocated to the WIA and ARRA programs in accordance with the Office of Management & Budget Circular Number A-122.

Goodwill Industries successfully implemented the Corrective Action Plan submitted on July 21, 2011 and resolved each of the findings.

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 follow-up review.

Michael J. Paul
Page 5

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.

Gere W. Sibbach, CPA
Auditor-Controller



James P. Erb, CPA
Assistant Auditor-Controller



GOODWILL

Industries of Santa Cruz, Monterey
& San Luis Obispo Counties, Inc.

Our Business is Changing Lives!

July 21, 2011

County of San Luis Obispo
Auditor-Controller's Office
Attn: Matthew Purkiss, Auditor Analyst
1055 Monterey Street, Room D-220
San Luis Obispo, CA 93408

Corrective Action Plan
Fiscal and Financial Monitor Report
Contract Year II 2010-2011

Dear Mr. Matthew Purkiss:

As requested, we are submitting our comments and Corrective Action Plan regarding the findings as outlined in the Workforce Investment Act (WIA) Title I Adult and Dislocated Worker Program Compliance Monitoring PY 2010-2011 Draft Monitoring Report of June 15, 2011

Goodwill, doing business as Shoreline Workforce Development Services, began operation of the Business and Career One Stop system of San Luis Obispo on July 1, 2009. This Corrective Action Plan (CAP) is in response to the second program monitoring conducted from February 2011 through May 2011. We appreciate the feedback the County Auditors have provided. We view this as an opportunity to improve our fiscal program controls, and resolve the identified weaknesses.

Since the identification of findings, we have improved internal controls and approvals for reporting. This report outlines the steps we have taken to remedy these findings.

FISCAL REVIEW RESULTS

We believe that overall Goodwill Industries is meeting the basic applicable WIA requirements concerning the financial management of this grant for Program Year 2010-2011. We did identify and agree to some areas of noncompliance as discussed in the findings listed below.

FINDING 1

Requirement: County of San Luis Obispo Department of Social Services Policy 16-08, Monthly Financial Reporting Requirements and Exhibit B-2 4.h, Accounting System, of the FY 10-11 renewal contract between Goodwill Industries and the County of San Luis Obispo Department of Social Services require the provider to report expenditures on an accrual basis.

Observation: We determined expenditures were not accrued for the two quarters reviewed: July- September 2010 and October-December 2010

- Cause:** Management at Goodwill Industries stated personnel at the corporate office do not accrue expenditures. Because the accounting books are not closed at month end, it is common practice for staff to back-date entries to prior months rather than post accruals.
- Effect:** Back-dated expenditures create additional costs in months that have been previously invoiced. As a result, the accountant invoices these costs in subsequent months. No adjustment log is maintained. Nor was any type of sufficient audit trail in place to make it possible for us to precisely recreate the reimbursement claim amounts submitted to the County by Goodwill Industries. As a result, an accurate representation of expenditures and supporting documentation for monthly invoicing is unavailable.
- Recommendation:** Goodwill Industries must comply with the Department of Social Services' policy and the contract, and accrue appropriate expenditures for each month of reporting and invoicing. Best accounting practices dictate the accounting records be closed within a reasonable period such as ten days after the end of the month, and no additional entries for that month should be allowed. Known expenses such as salaries or services that have not been paid by the month end should be accrued so that expense matches the period it was incurred.
- Response/Action Plan:** Goodwill uses an accrual accounting system. We keep the books open until the 25th of the month for the whole agency. Our contract with DSS requires that we invoice by the 10th. It has been between the 10th invoicing and the 25th agency closing that some non-payroll, non-benefit expenses were attributed to an invoiced month and not accrued for the invoice. This created differences between the invoice and the trial balance. We do not back-date expenses but have booked them in the month they were incurred.
- To address the need for a congruous trial balance and the invoice for each month we have developed an accrual system for the WIA reporting on the basis of an analysis of the documentation on hand at invoicing time. As agreed upon in our meeting, after invoicing, any item that was unknown at the time yet relates to the month that was invoiced will be shown as incurred in the next month. It should be noted that at the end of our fiscal year, December 31, our company auditors will require us to show all expenses incurred in the previous year no matter when they are discovered. This may lead to a discrepancy matching invoices to the trial balance in December. We anticipate these discrepancies will be minor.
- Our new procedures for capturing and invoicing all expenses for each month are being aggressively implemented, communicated and overseen. We encourage and invite the WIA monitors to review and comment on our documentation, procedures and results after the first contract quarter. This

will allow us to make midcourse corrections, if needed, and insure we are complying with the regulations.

FINDING 2

Requirement: The FY 09-10 contract between Goodwill Industries and the County of San Luis Obispo Department of Social Services, Exhibit B-2, section 12d. states that the Contractor agrees to complete a close out package for the period of the contract within 30 days after the ending date of the contract.

Observation: We determined that the Contractor did not complete a close-out package within 30 days after the ending date of the contract.

Cause: Goodwill Industries did not record expenditures as required for the month of June 2010 (see finding 1 above). Expenditures continued to be recorded after the accounting books should have been closed for the month.

Effect: \$22,504.83 of FY 2009-2010 expenditures were reimbursed with funds from FY 2010-11 contract.

Recommendation: Goodwill Industries must repay the \$22,504.83 of the reimbursed funds. Expenditures must be accrued, and a close out package must be completed for the period of the contract within 30 days after the ending date of the contract

Response/Action Plan:: Goodwill did not provide a close out package for the 2009-2010 contract year as there was no definition of what a close out package consisted. The Department of Social Services acknowledged this during the presentation of the draft report. DSS also indicated they would remove the section on the "Close Out Package" from the report. Goodwill has not seen how this portion of the finding will be rewritten so cannot respond to it.

Pending the final report and acceptance of the wording for this finding, Goodwill will repay the \$22,504.83 for legitimate program expenses that were invoiced in the 2010-2011 contract year that were incurred in the 2009-2010 contract year.

To avoid this from happening this year, DSS and Goodwill agreed that Goodwill would provide a 13th invoice (part of the close out package?) that will capture debits and credits that were not known at the time of the June invoice. This should allow us to include all costs in the proper year. If there are still outstanding items we will communicate them to DSS for discussion and resolution.

Goodwill requests that the close out package be defined.

FINDING 3

- Requirement:** Office of Management & Budget Circular Number A-122, subparagraph 8.m (1) states "The distribution of salaries and wages to awards must be supported by activity reports..." reflect an after the fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to the awards."
- Observation:** We determined some salary reimbursements were based on FTE's allocated to the FY2010-11 contract rather than actual time allocated to the WIA ARRA programs.
- Cause:** Management at Goodwill Industries stated the payroll service ADP was unable to identify the amounts allocated to various government programs, and that it would be onerous for Goodwill Industries staff to calculate the amounts prior to invoicing.
- Effect:** Salary and wage reimbursements are made based on estimates, rather than actual time allocated to the WIA and ARRA programs.
- Recommendation:** Goodwill Industries must comply with the Office of Management and Budget Circular Number A-122 when requesting salary and wage reimbursements for the time allocated to the WIA and ARRA programs.
- Response/Action Plan::** We acknowledge that Goodwill Industries used a Personnel Action Form (PAF) to allocate a few employees' wages based on a percentage of time allocation on various government contracts. In the future, Goodwill will substantiate and distribute salaries and wages via after-the-fact activity reports found on the back of the time sheet for each employee. This process was in place for most employees throughout the contract year. We will now include all funded employees in this program.
- All funded program direct line staff will report actual time worked by program on their bi-weekly time card. We will directly record the associated hour/dollar amounts into our contract ledgers. We will produce a labor distribution report that reflects a projects labor costs to the trial balance that was included in our invoice preparation.
- Program Management staff, as agreed to in the draft monitoring conference, will continue to be allocated based on a budgeted percentage allocation Program Management staff will report actual time worked as line staff does, however, these reports will be summarized and made available to support the hours/dollars invoiced for these employees.
- We believe this actual time reporting on the time card meets A-122's requirement and replaces our prior "allocation" process as reported in this monitoring.

In Summary

As documented by the County Auditors, this was a much more rigorous "Audit" than a typical program "Monitoring" review. The review process was started in February and finished in May. The auditors reviewed 6 invoices covering over a million dollars in expenditures and thousands of transactions. In the course of their "audit" they identified three (3) Findings.

We believe Findings #1 and #2, #3 have been properly addressed. We agreed to the repayment of funds expended on program, implemented a Best Accounting Practice for quicker monthly cut off with a better accrual system, and retooled our payroll process to allow for an actual time charge pay card process for payroll, cost allocation and labor distribution that supports it.

We appreciate the work of the County Auditors and the on-going and supportive guidance of DSS. We have made the appropriate corrections which comply with the applicable WIA requirements.

Should you have any questions, please do not hesitate to contact one of us directly at (831) 600-0227 or Nick Andrews at (831) 600-0204 or Bill Barker at (805) 903-1422 or (805) 235-3132

Michael J. Paul
President/CEO

Nick Andrews
Director of Finance

Bill Barker
Financial Manager