OFFICE OF THE CITY INTERNAL AUDITOR

AUDIT OF THE YOUTH OPPORTUNITY PROGRAM

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TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	E-1 to E-5
FINANCE DEPARTMENT RESPONSES – AUGUST 21, 2003	3 pages
DEPARTMENT OF COMMUNITY INITIATIVES RESPONSES – AUGUST 26, 2003	3 pages
REPORT – MAY 19, 2003	39 pages
INTRODUCTION	1
BACKGROUND	1
OTHER YOUTH OPPORTUNITY PROGRAM EVALUATIONS	2
OBJECTIVES AND SCOPE	3
METHODOLOGY	3
RESULTS, RECOMMENDATIONS, AND RESPONSES	
FINDING 1:	8
INCREASED RISK EXPOSURE FOR THE CITY DUE TO INTERNAL CONTROL WEAKNESSES	
DETAIL OF INTERNAL CONTROL ISSUES	10
FINDING 2:	10
Sub-contractor Monitoring	12
Youth Opportunity Program Administration	14
Case File Management	15
Allowable Costs	18
Audit Requirements	20
Property Management	21
Performance Measures	24
Staffing	27
Sports and Recreation	28
FINDING 3:	29
Recording of Contract Awards and Modifications	30
Fiscal Management	33
Recording of Accounts Receivable	36
Timeliness of Reimbursement	37
FINDING 4:	39
CONTRACTING IMPROVEMENTS	
APPENDIX A: FINANCE RESPONSES – JUNE 3, 2003	2 pages
APPENDIX B: DEPARTMENT OF COMMUNITY INITIATIVES (DCI) RESPONSES - JUNE 23, 2003	13 pages
APPENDIX C: ALAMO WORKFORCE DEVELOPMENT, INC. (AWD) PROGRAM MONITORING REVIEW REPORT – JULY 1, 2003	6 pages
APPENDIX D: DCI RESPONSE TO AWD REPORT – JULY 24, 2003	9 pages

EXECUTIVE SUMMARY
AUDIT of the YOUTH OPPORTUNITY PROGRAM—PROGRAM YEARS 1 and 2
May 19, 2003

The Office of the City Internal Auditor has completed an audit of the Youth Opportunity Program (Program), administered by the City of San Antonio's (City) Department of Community Initiatives (DCI) at the request of an Assistant City Manager. This Program is funded by the U.S. Department of Labor through Alamo Workforce Development, Inc. (AWD). The scope of the audit included the first two Program years, which covered the period from March 20, 2000, through June 30, 2002, and financial and performance information for the period from July 1, 2000, through March 31, 2003. Relevant Program information is presented in the following table:

Program Year	Ending Date	Grant Award (Revised) As of May 2003	Program Staff	Actual Expenditures As of March 31, 2003[3]	Actual Expenditures As of May 31, 2003[4]	Grant Award Less Expenditures Thru May 2003
1	6/30/2001	$6,308,875	40[1]	$6,318,985	$6,318,985	($10,110)
2	6/30/2002	6,256,749	113[1]	8,360,672	8,455,880	(2,199,131)
3	6/30/2003	5,014,697	80[2]	1,959,818	2,666,679	2,348,018
4[5]					1,200	(1,200)
		$17,580,321		$16,639,475	$17,442,744	$137,577
				Year 3 Encumbrances Regular, per FAMIS as of 5/31/03		($51,504)
				Third Party Contribution in Year 1		$1,000
				Grant Award Available at May 31, 2003		**$87,073**

[1] Year-end staffing data provided by the Program.
[2] City's fiscal year 2003 annual approved budget positions expected to be filled.
[3] Based on the City's accounting records at March 31, 2003.
[4] Based on the City's accounting records at May 31, 2003.
[5] Year 4 begins July 1, 2003.

The objectives of the audit were to determine whether the Department of Community Initiatives:

- Administered the City's Youth Opportunity Program in accordance with its contract with the Alamo Workforce Development, Inc., and
- Complied with federal, state, and local regulations included in the contract.

The audit focused on the areas of program management/administration, financial and accounting controls, and contract processes.

There is increased risk exposure for the City due to the type and occurrences of internal control exceptions identified. The significant internal control issues can be summarized into the following:

- The City's Management Team, department, division and other manager/supervisory personnel are responsible for establishing a suitable control environment for the Program and similar programs. They play a critical role in communicating the tone, or degree of control expected in administering and safeguarding public resources. The span of control for the Department of Community Initiatives (DCI) is very broad, which reduces managements overall ability to maintain internal controls that can reasonably ensure compliance with requirements. This conclusion has been reached based upon the audit findings.

- The existing DCI and the Youth Opportunity Program organizations have consolidated numerous key fiscal and operational responsibilities within three years. The Program has experienced various key staff turnover or exchanges with DCI. This indicates a lack of appropriate segregation of duties, which directly impacts the effectiveness of various internal control objectives.

Operation of the Youth Opportunity Program and monitoring by the Department of Community Initiatives (DCI) staff did not detect various omissions and exceptions related to sub-contractors and Program administration.

Fiscal monitoring by DCI and the Finance Department did not detect and address fiscal management, financial, and accounting control issues as follows:

- Grant expenditures were misstated by $10,110 for Program year 1 and by $2,199,131 for Program year 2; and the potential exists for overspending Program year 3 based on prior year accounting errors.

- Contract modifications for grant funding were not accurately recorded in the City's accounting records: $1,000 third party contribution for year 1; $52,126 de-obligation of year 2 funds by Alamo Workforce Development, Inc.; and duplicate budget recording of $1.6 million in year 3 without adjusting year 2 funding for the carryover.

- Invoices for reimbursable costs had a variety of errors and were not submitted timely by Program staff from the latter part of year 1 through mid-year 3.

- Reimbursements to the City by Alamo Workforce Development, Inc. were not received timely, primarily in years 2 and 3.

- Delayed invoicing and receipt of reimbursable costs required other pooled monies to be advanced, which resulted in approximately $16,200 in lost investment income.

Legal documents for sub-contracts could be tailored to the limited scope and service provided by these vendors, which would be more cost effective for the provider to operate and for the City to monitor.

The report includes recommendations that should assist City Management, the Department of Community Initiatives (DCI) and Youth Opportunity Program Management, and the Finance Department in making improvements that would reduce the nature and frequency of exceptions or errors.

When significant issues were noted during audit fieldwork, Program and DCI staff were immediately notified. Additionally, in late April 2003 and May 2003, the City Internal Auditor met with City Management and the Director of DCI and key supervisory personnel to discuss the significant issues identified to be included in the report.

The audit was designed to provide reasonable, but not absolute, assurance that internal control policies and procedures implemented by the Department of Community Initiatives and the Finance Department were effective. Sampling techniques and audit methodologies were applied that meet generally accepted government auditing standards. There could be instances of non-compliance with the contract, or errors and omissions in the financial records that were not identified by these audit procedures.

This report reflects City Management's responses to the audit findings. Overall, the Human Development Assistant to the City Manager, the DCI Director and his staff disagree with various aspects of this audit. Their view is that the U.S. Department of Labor (DOL) and others who have done reviews of the Program during the last three plus years have formed different conclusions.

Each organization reviewing and/or evaluating the Program has focused on areas, testing and levels of detail that are appropriate to its purpose, mission and objectives. Professional standards also require that each be independent of the program under review. It is possible that somewhat different conclusions and results have been reported. However, documented reports and correspondence show some recurring issues required specific corrective action.

In responses to prior review and audit findings, DCI or the Program has produced additional supporting documentation. Additionally, the staff has sought for reconsideration of interpretation on issues where possible. The nature, frequency and similarity of issues over the Program period, in combination with the lengthy search by staff for supplemental data once presented with audit findings, highlights the overall DCI and Program management and fiscal control problems.

In their responses dated June 23, 2003, DCI and the Program reference a list of 30 guidelines and procedures for operations. Sixteen of the procedures on their list were developed and issued after audit fieldwork and four of them were revised in May 2003. Neither the procedures shown on this list nor any of the thirty or more provided during the audit process dealt directly with fiscal controls.

Their response documents included information on training of Program and Department of Community Initiative (DCI) personnel. A list of courses and attendance indicates no training in specific fiscal and/or contract monitoring controls. Much of the training appeared to be for individual personal development.

While, the response shows efforts to do more documentation, audit staff has not received copies of the new or revised procedures nor has their impact on the management, financial, and accounting controls been demonstrated.

The Office of the City Auditor will continue to monitor corrective actions observed or reported to evaluate the degree of improvement. Based upon the follow-up of issues presented during and subsequent to fieldwork, it would appear that this may be lengthy. The required evaluation period will also be determined by Alamo Workforce Development, Inc. and City Council actions to authorize and accept grant awards for the year starting July 1, 2003.

Acknowledgements are extended to the Director of the Department of Community Initiatives and his staff for their significant cooperation during this lengthy and complex audit. The Finance Department also contributed to the completion of this project through their timely assistance.

DCI's Response dated June 23, 2003:

DCI has administered the City's Youth Opportunity (YO) for three program years (2001-2003) and there are options for two additional years. YO is a U.S. Department of Labor (DOL) program operating in 36 selected sites through the United States. DCI has a $17.5 million contract to operate the YO program through the Fiscal Agent, Alamo Workforce Development Inc. (AWD). Both DOL and AWD have performed site visits, training of staff, and audits of YO activities. All audit recommendations received immediate attention and all audit issues were corrected.

DOL conducted a site visit of the YO program for placements and participations in May 2003. According to DOL, DCI is second among all YOs in participation and fifth in placements.

In program years one and two, the YO program experienced procedural changes directed by the grantor and the fiscal agent that effected performance. At the inception of the YO program, the eligibility criteria and the required supporting documentation was not fully developed. As a result, YO program recruits in program years one and two experienced eligibility issues. Additionally, the grantor and fiscal agent tried unsuccessfully to develop or modify existing databases to track participant enrollments and training accomplishments. DCI used its own developed database and transferred the participant data into the grantor's approved e-TEAMS system in March through June 2002.

DCI concurs with the funding levels and expenditures in the table used in the executive summary. However, the staffing levels shown were not correct. The program staff should have been 38 permanent positions filled in program year one, 106 permanent positions in program year two, and 104 permanent positions in program year three. In program year one, we did not reach our authorized level due to the late start of the program, which resulted in our initial YO recruiting and enrollment beginning in September 2000. The staffing levels in the following two program years were in accordance with AWD authorized levels for permanent employees.

The audit report does not accurately report the YO program development and its performance according to the DOL. The report recommends ordinance and contractual actions that are not required and financial repayments to the fiscal agent that potentially could cost the City's general fund. DCI is providing documentation to the City Auditor with these comments to show the conclusions reached were not based on all the available details.

AUDIT of the YOUTH OPPORTUNITY PROGRAM—PROGRAM YEARS 1 and 2
May 19, 2003

The Office of the City Internal Auditor has completed an audit of the Youth Opportunity Program (Program) administered by the City of San Antonio's (City) Department of Community Initiatives. This Program has been funded by the U.S. Department of Labor through Alamo Workforce Development, Inc. In the summer of 2001, an Assistant City Manager requested that the Office of the City Auditor, formerly known as the Office of Internal Review, include a review of the City's Youth Opportunity Program in the annual audit plan for fiscal year 2001-2002. Planning began in January 2002 and fieldwork followed in June 2002. The audit was performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Acknowledgements are extended to the Director of the Department of Community Initiatives and his staff for their significant cooperation during this lengthy and complex audit. In addition, the Finance Department also contributed to the completion of this project through their timely assistance.

BACKGROUND

On September 30, 1999, City Council approved Ordinance No. 90581 authorizing the City's Department of Community Initiatives to participate in a collaborative application with Alamo Workforce Development, Inc. for a U.S. Department of Labor's Youth Opportunity Grant. As a result, $11 million was awarded to Alamo Workforce Development, Inc. (AWD) for the initial year. AWD then awarded $6.3 million, or about 57 percent of the total, to the City's Youth Opportunity Program. Thereafter, San Antonio was eligible for up to four additional option years of funding. The grant award and funding are as follows:

Funding Year (Option Year)	Grant Period	Grant Amount (Revised)	Status As of May 2003
Initial	March 20, 2000 through June 30, 2001 (extended through June 30, 2002)	$6,308,875	Awarded
2nd (First)	July 1, 2001 through June 30, 2002	6,256,749	Awarded
3rd (Second)	July 1, 2002 through June 30, 2003	5,014,697	Awarded
Sub-Total for Grant Awards to Date		$17,580,321	
4th (Third)	July 1, 2003 through June 30, 2004	4,731,656	Not Awarded
5th (Fourth)	July 1, 2004 through June 30, 2005	3,154,437	Not Awarded
Total Possible Awards, if renewed each year		$25,466,414	

Youth Opportunity Program outreach workers identify school dropouts and other youth that are not connected to work, education, or training. The Program allows them to re-enroll in school, to participate in literacy programs, and to prepare for higher education, long-term occupational skills, or job readiness training opportunities.

Youth are eligible to be served by this grant if, at the time of enrollment, they are between the ages of 14 and 21, are legal U.S. residents, and are residing in the San Antonio empowerment zone/enterprise community (EZ/EC). A majority of the EZ/EC is situated in the "hub" of downtown San Antonio. In addition, males 18 years of age and older must be registered with the Selective Service to be eligible.

The City's Department of Community Initiatives (DCI) is responsible for implementation, staffing, program quality, goal attainment, and evaluation of the City's Youth Opportunity Program. Generally, DCI:

- Operates the Program with City staff;
- Provides funding to the San Antonio Metropolitan Health District for the Program health component; and
- Contracts with other agencies and organizations (sub-contractors) to provide specific support services.

OTHER YOUTH OPPORTUNITY PROGRAM EVALUATIONS

Several entities selected the City's Youth Opportunity Program for review and evaluation during the first two years of its existence. These included the: Department of Community Initiatives Management Review Team; City's independent external auditors; U.S. Department of Labor, Employment and Training Administration; U.S. Department of Labor, Office of Inspector General; and Alamo Workforce Development, Inc. These reviews and evaluations addressed various aspects of the Program and included findings related to:

- Case file maintenance
- Property management accountability
- Budget line items
- Allowable costs
- Eligibility of participants
- City agreements with sub-contractors
- Job/education placements of participants
- Performance reporting
- Program performance
- Automated database
- Sports and recreation activities

The above issues were considered when developing the audit plan and for audit testing.

DCI's Response dated June 23, 2003:

The City Auditor's developed table showing the YO grant years, period, amount and status was correct.

OBJECTIVES AND SCOPE

The audit objectives were to determine whether the Department of Community Initiatives administered the City's Youth Opportunity Program in accordance with its contract with the Alamo Workforce Development, Inc. and complied with certain federal, state, and local regulations.

The audit mainly focused on the two grant periods from March 20, 2000, through June 30, 2002. In addition, the financial and performance information for the period from July 1, 2000, through March 31, 2003, was reviewed. Fieldwork was performed at Youth Opportunity Program offices, the Department of Community Initiatives, and the City's Finance Department at various times from June 17, 2002, through April 22, 2003.

METHODOLOGY

The audit processes included discussions with Department of Community Initiatives and Youth Opportunity Program staff, and reviewing and evaluating Program documentation. Audit emphasis was on the following areas:

- *Program Administration*
  Case file management
  Allowable costs
  Property management
  Sub-contractor monitoring
  Performance measures
  Staffing
  Sports and recreation
- *Contracting Improvements*
  Contract processes
- *Internal Control Issues*
  Financial and accounting controls
  Audit requirements

For certain areas of testing a statistical, random, or judgmental sample was selected based on the determination of the appropriate sampling methodology necessary to meet the objective.

PROGRAM ADMINISTRATION

A list of enrolled participants was developed using information prepared by Youth Opportunity staff and from information in the Program's automated database. The total number of enrolled participants for the period from March 20, 2000, through June 30, 2002, was 1,686. Computerized audit software was used to determine a statistical sample size of 180 participants, and to randomly select individuals to review and test for case file management; for inclusion in the automated database; for follow-up; and for health intake.

Case File Management

The City's contract with Alamo Workforce Development, Inc. requires that the Program develop systems, policies, and procedures to support the services provided under the contract.

- *Eligibility of Participants:* Case files were examined to determine if documentation to support the participant's eligibility was available.

  Specifically, the enrollment verification form developed by Youth Opportunity staff was reviewed. This form identifies the documentation that Program staff reviewed and included in the participant file to support eligibility.

  Additionally:

  Copies of participant's driver's license, birth certificate, social security card, utility bill, and selective service document were reviewed.

  Verified whether names included on documentation (if different from participant's name) provided to establish residency in the empowerment zone/enterprise community (EZ/EC) matched the names of individuals participants identified as residing in the same household.

  Participant addresses were verified as included in the EZ/EC on the Internet site www.hudweb.esri.com and/or to the census tracts included in the Youth Opportunity grant application approved by the U.S. Department of Labor.

- *Automated Database:* The automated database known as e-TEAMS was reviewed and tested to determine whether the participant name, social security number, and enrollment date entered into the database agreed to the information in the participant's file. e-TEAMS is a U.S. Department of Labor database used nationally by Youth Opportunity grant awardees to compile information on participants and their activities. The City's Youth Opportunity Program began entering participant information into e-TEAMS in February 2002. Youth Opportunity staff indicated that they were in the process of populating e-TEAMS with activity information at the time of testwork in October 2002; therefore data about activities in the database was not verified due to this timing.

- *Follow-up with Participants:* Files were reviewed to determine if staff followed-up with participants as required by the contract. The agreement with Alamo Workforce Development, Inc. (AWD) requires that all participants receive follow-up services for a minimum of 24 months. The City's Youth Opportunity Program's internal policies and procedures further define the follow-up expectations for its participants.

Participants are categorized as either placed or non-placed.

Placed participants are defined as those moving into long-term unsubsidized employment, education, or occupational skills training, and remaining in that employment, education, or training for at least two weeks.

Non-placed participants are those enrolled and engaged in various activities, which have not moved into long-term unsubsidized employment, education, or occupational skills training.

- *Participant Health Intake:* Health files were examined to determine whether participants received a medical assessment as required by the contract. The Program funds three positions to provide health assessments and related services to participants. The City's internal policies and procedures require staff to perform an assessment and complete a health intake form. This form is maintained by the health services staff to protect the privacy of participants.

Allowable Costs

Expenditures for the Youth Opportunity Program years one and two totaled $11.2 million, per the City's accounting records as of June 30, 2002. This amount was less than the $12.6 million awarded for the first two Program years, as shown in the table on page six. Alamo Workforce Development, Inc. (AWD) approved a carryover of the unspent grant funds into the third year. The first expenditures incurred for this Program were recorded in July 2000. Fifty non-payroll expenditures and 87 payroll expenditures from July 1, 2000, through June 30, 2002, were judgmentally selected for testing.

Testwork included a review of the expenditures to determine if they were reasonable and necessary; were allocable to the federal award; were given consistent accounting treatment; were in conformance with any limitation or exclusion; net of all applicable credits; and were properly documented. The tests also included determining whether funds were obligated within the period of availability and were paid within the required time period.

Control procedures related to the safeguarding and use of gift cards to purchase merchandise from local vendors were also reviewed, as these are considered cash equivalents. The Single Audit for 2001 performed by the City's independent external auditors questioned 100 percent of the expenditures for gift cards, or about $37,000, because supporting documentation was not available. These cards are distributed to participants to purchase supportive services, such as food or clothing, or as incentives when participants achieve Program goals. Subsequent to the Single Audit for 2001, Youth Opportunity staff implemented policies and procedures to address the concerns raised in the audit. These policies and procedures dated January 2, 2002, were reviewed and tested in this audit process to determine whether the new controls were in place and effectively working.

DCI's Response dated June 23, 2003:

The YO expenditures for Program year one and two per the City's accounting records as of June 30, 2002 were $11.2 million as stated in the audit report.

Property Management

Twenty-five property items were randomly selected from a Youth Opportunity property listing as of September 30, 2002, for testing purposes. The listing included 1,066 items purchased with grant funds valued at approximately $585,100. Additionally, five items at various locations were randomly selected to determine whether those items were included on the Program property listing. In total, 30 items with a total value of $19,332, or 3.3 percent of the Youth Opportunity Program property, were tested.

The property listing was reviewed to determine the Youth Opportunity Program's compliance with:

- The contract with Alamo Workforce Development, Inc.;
- Other federal, and state, property management requirements; and
- Department of Community Initiatives policies and procedures.

Documentation of annual physical inventories of property by the Department of Community Initiatives (DCI), as required by the contract, was requested during and after fieldwork.

Sub-Contractor Monitoring

The Youth Opportunity Program entered into 23 sub-contractor agreements during the period from October 1, 2000, through September 30, 2002, to provide services to participants. The value of these contracts totaled $3,744,664. Five sub-contractors were judgmentally selected, whose awards totaled $1,163,588, or 31 percent of the total, for that period to review.

Program staff provided documentation for these five sub-contractors. Youth Opportunity's sub-contractor monitoring procedures were reviewed for compliance with federal, state, and City guidelines/standards.

Performance Measures

Performance goals and actual performance, based on amounts the Department of Community Initiatives reported in the City's approved annual budgets for fiscal years 2001, 2002, and 2003, were compared. Additionally, performance measures required in the City's contract with the Alamo Workforce Development, Inc. and the U.S. Department of Labor grant agreement were reviewed.

The performance measures included in the Alamo Workforce Development, Inc. (AWD) contract were compared with the performance measures reported in the City's approved annual budgets and to the performance information reported to the U.S. Department of Labor (DOL) through the automated database known as e-TEAMS. The accuracy of the information reported in the approved annual budgets or the automated database reports was not verified; however, the information was used in audit analysis.

Other analyses of cost per participant and staffing ratios were also performed.

Staffing

The personnel resources approved in the City's contracts with Alamo Workforce Development, Inc. for years one and two (March 20, 2000, through June 30, 2002) was compared to the schedule of staff assigned to the Program for these periods.

In addition, staff to youth ratios were evaluated to determine whether they met contract requirements.

Sports and Recreation Component

Sports and recreation activities available to participants were compared with contract terms, which included utilization of existing City Park's and Recreation Department initiatives.

CONTRACTING IMPROVEMENTS

Throughout the audit, observations were made about the overall contract processes and monitoring procedures.

INTERNAL CONTROL ISSUES

Financial and Accounting Controls

Trial balances and income statements for the Program from the City's accounting system were reviewed for each month from March 2000 through March 2003. Analytical procedures were performed to determine whether:

- Grant awards and revisions were properly recorded.
- Revenues and expenditures were recorded in the correct Program year.
- Expenditures and encumbrances met grant award amounts.
- The Department of Community Initiatives billed Alamo Workforce Development, Inc. for Program expenditures in compliance with the contract.
- Alamo Workforce Development, Inc. properly reimbursed the City for expenditures.

The audit requirements in the contract with the Alamo Workforce Development, Inc. and the City's Single Audit reports for the fiscal years ended 2000 and 2001 were reviewed. Additionally, the City's independent external auditors were asked whether the Youth Opportunity Program was included as part of the 2002 Single Audit, which had not been issued as of April 30, 2003.

RESULTS

Finding 1: ***Increased risk exposure for the City due to internal control weaknesses.***

The initial focus of the audit was on the City's compliance with significant provisions of its contract with Alamo Workforce Development, Inc. In performing follow-up to fieldwork and additional analysis, significant internal control issues were identified. These findings can be summarized into the following:

- The span of control in the Department of Community Initiatives (DCI) is too broad.
- The existing organization in DCI and the Youth Opportunity Program has consolidated too many key fiscal and operational responsibilities.

The City Internal Auditor discussed significant issues in this report with the Human Development Assistant to the City Manager with oversight responsibility for the Department of Community Initiatives on April 21, 2003, and the City Manager on May 5, 2003.

Recommendation for Finding 1

City Manager and Management Team

The City Manager and her Management Team should reconsider the impact decentralization of major business functions has had on the City's ability to achieve its overall control objectives for this and similar programs.

Organizational or functional realignment and/or staff changes are required to correct the control problems identified in this audit, and in reviews or audits by others since the Program's inception.

Department of Community Initiatives (DCI) Management

To address the overall internal control issues, City Management must ensure that DCI:

- Defines and documents the control objectives for administration and for monitoring of this Program and other programs under its responsibility.

- Ensures that the control objectives, policies, and procedures are thoroughly explained to staff and reinforced through regular training. Follow-up should be continued until there is sufficient change, or evidence, that the control objectives are understood and the processes are working properly.

- Determines if staff assigned to Program administration and monitoring functions have appropriate skill sets, experience, and competencies to perform their tasks.

- Addresses staff turnover issues and ensure that there is consistency of performance.

DCI's Response dated June 23, 2003:

DCI does not concur with the finding or the recommendations.

Given the magnitude of this endeavor, DCI followed a thoughtful plan of implementation. Experienced DCI fiscal operations, division managers, and other key support personnel were assigned, on a temporarily basis, to assist with the rapid start-up for YO. DCI also engaged retired human resource professionals to enable us to expedite the hiring process.

The YO organizational structure was similar to other DCI programs. This structure allowed the YO Social Services Manager to manage through the assigned program managers and caseworker supervisors. The Social Services Manager had support operations through an on-site fiscal officer, management information system personnel, a senior management analyst, and was provided supplemental assistance including monitoring through the Director's office. Caseworker supervisors provided day-to-day operational instructions to the YO caseworkers.

Also, during this period of time, the City contracted for a span of control study. This study indicated that overall YO's span of control was adequate. The study did recommend the addition of a casework supervisor, which we implemented.

Our span of control among key managers and supervisors and the placement of key support positions on-site provided a more than adequate organizational structure. YO issued 25 YO Guidelines for Operations (YOGO) during the three program years and received policy guidance from AWD. Most YO staff received one-week of training through the DOL and received on-the job training sessions conducted by YO managers and caseworker supervisors.

Two permanent Social Services Managers have overseen YO. For a brief period, DCI assigned a veteran Social Services Manager to lead YO until a replacement could be selected. DCI

selected an internal YO supervisor to serve as the new YO Social Services Manager. Each manager brought educational and workforce development experience to this position. Both managers possessed a graduate degree, including one with a doctor's degree. Thus, YO experienced minimal turnover in leadership.

Our YO program managers and caseworker supervisors have college degrees. All YO caseworkers were college graduates, were placed under experienced supervisors, and received continuous program training. YO's turnover rate was about 15 percent in program years one and two and includes personnel who were promoted into other jobs with the City or were terminated at DCI's discretion. The YO turnover rate was slightly higher than other DCI programs, but YO is a new program in comparison to more established DCI programs.

DETAIL OF INTERNAL CONTROL ISSUES

Finding 2: ***Operation of the Youth Opportunity Program and monitoring by DCI staff did not detect various errors, omissions, and exceptions related to sub-contractors and Program administration.***

Audit procedures performed were based on a review of the City's contract with Alamo Workforce Development, Inc. (AWD) and a review of federal, state, and local regulations and guidelines applicable to the Youth Opportunity Program. The Department of Community Initiatives' (DCI) monitoring reviews should be based on the same information.

The Department of Community Initiatives has a Management Review Team (MRT) that performed several evaluations of the Youth Opportunity Program. The MRT identified in August and in October 2001, a number of issues similar to those described in this report. The overall opinion of the MRT was that the Program was "on the way to meeting its stated program objectives" and that Youth Opportunity staff was "dedicated, motivated, and working hard" and "working on solving outstanding issues."

Internal Audit's review of this Program covered the period from March 2000 through June 2002, with follow-up and additional analysis through April 2003. Exceptions identified occurred throughout the review period. The results indicate that the issues noted in the MRT reports, and also in the Internal Audit review, still remain outstanding.

- Effective monitoring controls within DCI should have detected the various issues identified in this report; the 2001 and 2002 Single External Audit Reports for the City; the AWD letters in February 2002 and March 2002; and the U.S. Department of Labor Employment and Training Administration review in November 2001.

- Program administration controls should have been effective in ensuring that staff complied with the City's contract with Alamo Workforce Development, Inc. Errors or omissions may still have occurred; however, they would have been identified and corrected in a timely manner with properly working controls.

- DCI Management is responsible for establishing and communicating control objectives, policies, and procedures to ensure that contracting and monitoring processes are efficient, effective, and properly working.

The City Internal Auditor and audit staff met with the Director of the Department of Community Initiatives and key supervisory staff to discuss the significant issues in this report on April 22, 2003.

DCI's Response dated June 23, 2003:

DCI does not concur with the finding.

The Social Services Manager, supervisors, and internal monitoring staff continuously reviewed case file management and placed added internal control requirements to meet program direction provided by the grantor and the fiscal agent. In all cases, the YO and DCI monitoring staff did detect errors and omissions which resulted in corrective actions.

As part of DCI ongoing quality assurance program, DCI Director's Management Review Team (MRT) performed reviews covering the maintenance of YO case files, establishing the automated YO member database support system, and implementing a security plan. Issues covered in the Single External Audit Reports for the /City (2001 and 2002) were reviewed in expanded internal monitoring reviews and corrective actions were taken. In program year two, YO managers developed a detailed action plan to address DOL's monitoring review recommendations.

As a result of the MRT and internal YO management reviews, procedures were developed that allowed YO management to more comprehensively monitor both fiscal and program performance. YO management performed a 100% review of all case files in January - February 2002 in order to ensure that contractual eligibility requirements were being met.

While errors are likely to be found in any test of such a large universe (i.e. 1,600+ case files), YO management prioritized monitoring efforts and placed emphasis on the critical requirements as stipulated by the contract. As an example, reviews of case files centered on ensuring that participants first met all eligibility requirements. As a result of DCI's self-monitoring efforts, the City Auditor found a small number of participants (11) to be ineligible for the program. These enrollments occurred when the grantor and fiscal agent had not made firm eligibility and supporting documentation requirements. Additionally, these individuals were all early enrollments in the program prior to DCI's internal strengthening of the eligibility criteria.

In the August 2, 2001 MRT report, recommendations were made to establish and maintain a participant database. The YO Social Services Manager employed a software specialist and, with technical assistance from the Director's office, re-constructed the existing access database to capture YO participant data. The resulting database implemented all the MRT report recommendations and provided an acceptable system to both AWD and the Department of Labor.

Issue A: Sub-contractor Monitoring

The Department of Community Initiatives (DCI) is responsible for monitoring sub-contractors funded through the City's contract with Alamo Workforce Development, Inc. (AWD) This includes adequately identifying for the sub-contractors the applicable requirements of the Program and reviewing, analyzing, and reporting on financial and performance data submitted by sub-contractors.

DCI's departmental directive requires staff to review and analyze the contract monitoring reports to detect significant variances between expected and actual performance. It further states that significant variances must be reported to the Director. Additionally, significant variances should be explained with action taken or planned to improve sub-contractor performance indicated. During Program years one and two, DCI executed 23 contracts totaling $3,744,664 with 14 different sub-contractors. Five sub-contractors were judgmentally selected whose contract awards totaled $1,163,588.

The audit work indicated that:

- Four of the five sub-contractors submitted monthly reports in a timely manner.
- One sub-contractor submitted nine reports as required; however, three were not provided.
- There was no evidence that DCI staff reviewed or analyzed the reports submitted, or that feedback was communicated to the Director, especially concerning exceptions.

Expenditure testwork showed that:

- One payment for $3,099 included reimbursement for food, which was not an approved line item for this vendor.
- One payment for $3,105 made to a sub-contractor's employee for a direct welfare (participant support) vendor payment is questioned due to DCI not providing adequate support for the expenditure.

Recommendation for Issue A

In addition to the recommendations regarding the overall internal control process stated previously, DCI Management should ensure that sub-contractors comply with their contracts. Invoices submitted by them should be reviewed and approved only for allowable expenditures.
In the absence of better justification and documentation for the two items above, DCI should have Program Management request a reimbursement by the sub-contractor. This refund should then be either re-used for project expenditures or returned to Alamo Workforce Development, Inc.

DCI's Response dated June 23, 2003:

DCI does not concur with the finding or recommendation.

A review of all Delegate Agency contract files for Fiscal Years 2001 and 2002 documents YO contacts with each agency concerning programmatic areas. For example, in Fiscal Year 2002 there were 118 documented contacts with agencies, with one agency having been contacted as many as 21 times.

YO managers and monitors communicated with the DCI Director's office concerning exceptions or concerns over Delegate Agency contracts. In one instance, the DCI Director accompanied the YO monitor for a contract compliance discussion with one Delegate Agency's management. Additionally, a DCI Director's office representative joined YO staff in meetings or discussions with a minimum of six other agencies. YO monitors and managers communicate any significant discrepancies in the agency's monthly reports to the Director's office.

YO did experience problems in receiving three monthly reports from one agency/sub-contractor. The agency was contacted, but did not deliver the required reports. YO was able to confirm attendance of this summer arts program through the cultural arts Program Coordinator. This same agency was not selected for a follow-on contract in Fiscal Year 2002.

The YO Fiscal staff reviews all invoices and does not knowingly reimburse sub-contractors for non-allowable or non-budgeted costs. The two questioned invoices represent allowable costs after examining the documentation.

> *The sub-contractor's payment of $3,099 was to a vendor for food and this expenditure had been preceded by a budget revision to cover this purchase. Our AWD contract allows YO subcontractors a budget variance, which would cover the cost overage experienced on the food purchase. Additionally, the DOL allows food to be purchased and provided to YO program participants.*
>
> *The payment to a sub-contractor's employee of $3,105 was to the Project Director for the program that was under contract. This payment was used by the Project Director to purchase money orders to disburse to the program's clients as stipends for completing the course offered. Copies of the client list and the money orders, which show to whom the disbursement was made, are readily available. Additional support for this expenditure was not asked for during the course of the audit.*

The above questioned expenditures do not require either a refund or return to AWD.

Auditor's Comment:

Evidence to support $3,099 of costs paid to a sub-contractor (The George Gervin Youth Center) for a non-budgeted line item was not originally provided to the audit staff during fieldwork. Audit staff discussed this issue with Department of Community Initiative (DCI) staff on November 5, 2002. DCI staff stated that a budget revision was not required since the expenditure was appropriate and the overall budget for the sub-recipient was not exceeded. DCI provided support for this expenditure with their responses. The budget revision was approved prior to the invoice submission by the sub-contractor. The expenditure support did not indicate when the meals were provided, which participants were supported, or when/how the food was purchased. Therefore there is no support for the reimbursement that was a budget revision. DCI should ensure DCI and YO staff are aware of policies and procedures regarding expenditure reimbursements and on when budget revisions are required.

Evidence to support payment to a sub-contractor's (Avance) employee in the amount of $3,105 was not provided by DCI staff during audit fieldwork as requested on November 5, 2002 and subsequently in March/April 2003. As of April 9, 2003, no response had been provided to ascertain the validity of the expenditure. Attached with DCI's responses was documentation for this expenditure. This was a reimbursement for family stipends paid to participants who completed the RAP Program at Avance. The stipend was $135 each for 23 participants.

The Avance employee used the check made out to him from Avance to purchase 23 money orders in the amount of $135 each and a $.25 charge for each money order. Copies of the receipt, each money order made out to the 23 participants, and a log with 19 participant signatures was provided to the City Auditor's Office by DCI.

The timing and manner of purchasing the stipend money orders and the lack of information about the four remaining orders is considered questionable and inappropriate. Avance could have issued checks directly to the clients.

Issue B: Youth Opportunity Program Administration

Administration controls should be sufficient to ensure that Program staff complies with contract requirements. Errors or omissions should not occur. If they do occur, then they should be detected and corrected in a timely manner. Program administration controls should be more effective in the following areas:

- Case file management
- Allowable costs
- Audit requirements
- Property management
- Performance measures
- Staffing
- Sports and recreation

Issue B (1): Case File Management

The City's contract with Alamo Workforce Development, Inc. requires that the Program develop systems, policies, and procedures to support the services provided. One hundred and eighty participant case files were reviewed and tested to determine whether the files contained required documents and whether the information was complete. Specific areas reviewed were:

- Eligibility
- Automated database
- Individual development plans
- Required forms
- Annual casework supervisor review
- Follow-up with participants
- Participant health intake.

The testing was very extensive but narrowly focused. It showed that generally 99 percent of participant case files would show deficiency in some case file management criteria. The tests results are considered valid for the overall group of 1,600 plus case files since a statistical sampling method was used.

Issues noted, related to the seven above areas reviewed, were as follows:

- One participant file was not located for seven months. This participant was only tested for eligibility and inclusion in the automated database with no exceptions.

- Four participants were tested for eligibility and inclusion in the database and were determined to be ineligible.

- Two participants had no exceptions.

- Forty-seven participants had one to three exceptions. (Includes one participant whose eligibility was not supported and two who met eligibility requirements after their enrollment.)

- Eighty-seven participants had four to six exceptions. (Includes two participants whose eligibility was not supported and two who met eligibility requirements after their enrollment.)

- Thirty-five participants had seven to nine exceptions. (Includes three participants whose eligibility was not supported and one who met eligibility requirements after their enrollment.)

- Four participants had ten to twelve exceptions.

Audit personnel discussed with Program staff these exceptions at various times between October 2002 and February 2003.

Expenditure testwork identified payments to the following vendors for stipends or other direct assistance for 128 participants: Guadalupe Cultural Arts Center for $21,361, City Public Service for $7,153, and Alamo Community College District for $28,900. A portion of the payments made to these vendors were for ineligible participants as follows:

- Three participants did not meet eligibility requirements before receiving services totaling $818.

- Twelve ineligible participants received services totaling $2,772. This includes one of the four ineligible participants mentioned above.

Audit staff discussed the eligibility status and related questioned costs with Program staff when testwork was completed in November 2002.

Recommendations for Issue B (1)

Department of Community Initiatives (DCI) Management needs to:

- Comply with its contract with Alamo Workforce Development, Inc. (AWD) by ensuring that all participants meet eligibility criteria before services are provided and costs are incurred.

    - All documents to support participant eligibility should be obtained at the time of enrollment and maintained in the participant's file.

    - Evaluate the eligibility status of the 29 participants mentioned above and determine the costs, if any, associated with providing services to them. The City may need to repay Alamo Workforce Development, Inc. for any costs incurred for ineligible participants within 30 days of this audit report if the questioned costs are not otherwise resolved.

- Develop, document, and communicate case file maintenance control objectives, policies, and procedures related to maintaining hardcopy files and the automated database.

- Provide routine training to ensure control policies and procedures are being followed until significant change is noted and control objectives are being met.

DCI's Response dated June 23, 2003:

DCI partially concurs with the finding and recommendations.

An extensive revision of YO Guideline for Operations (YOGO) 2001-11-01-01 (YO Case Management Component) was completed on May 28, 2003 to incorporate the latest case management policies, procedures and practices for the COSA Youth Opportunity Program. Forms have been eliminated, revised, or added to streamline our case management operations and to improve accountability (e.g. revision of the Individual Development Plan (IDP) and the Enrollment Verification forms, and the addition of the Orientation To Complaint Procedure form).

YO caseworker supervisors have continued to provide training to caseworkers covering file management and ensuring participants meet eligibility requirements. YO caseworkers are required to contact YO members at least once a month. This requirement for member follow-up has been restated to coincide with the updates recently made in the caseworker's Employee Performance and Development Plan (EPDP). YO caseworker supervisors are required to conduct, at a minimum, 10 random audits per month to ensure compliance with this operational guideline. Caseworkers are also required to refer all members to receive a health assessment by the Health Specialist is also included in the employee's EPDP. An additional health specialist has been added to assist in conducting assessments.

The auditors totaled exceptions found on each reviewed file. All these exceptions areas have been covered in increased training of our YO caseworkers. Exceptions found in files that were from early YO participants could be expected to have more exceptions than files of current enrolled and active YO members. DCI saw no need in correcting files of participants who dropped from the YO program. YO has several sites and files can be temporarily misfiled. YO produced 99% of the files requested by the auditors.

The audit questioned the eligibility and payment of services for 29 YO participants. Thirteen participants were enrolled before June 2001 and three other participants were only recruited and not enrolled. These enrollments occurred when the grantor and fiscal agent had not made firm eligibility and supporting documentation requirements.

DCI records showed that 18 of the 29 questioned participants were certified as eligible and the majority of their service costs was paid after their enrollment and eligibility determination.

The 11 ineligible participants (less than one percent of the total number of YO recruitments) had services paid ranging from $46 to $688 and totaling to about $2,500. The amount of services paid to ineligible participants represents a miniscule portion of the $16,639,475 of YO expenditures paid through March 31, 2003. The YO fiscal agent was aware of the early enrollment problems and the small number of ineligible participants. The fiscal agent has closed its books on years one and two and did not request a refund for any of the ineligible participants.

Only 7 of 180 (3.8%) e-TEAMS files were found to have had missing or incorrect data. The system automatically generates exception listings by member social security number when essential data is missing. These exception listings are continually worked by the fiscal agent and the YO MIS staff and provided to the case management staff for corrective action.

Auditor's Comment:

DCI knew in 2002 that audit procedures yielded substantial exceptions. Managing a program of this length and value should entail greater attention and emphasis from day one on controls and requirements.

Issue B (2): Allowable Costs

Article 2.1 and 3.2.2 of the City's contract with Alamo Workforce Development, Inc. (AWD) define allowable costs.

Office of Management and Budget (OMB) Circulars A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* and A-133, *Audits of States, Local Governments, and Non-profit Organizations*, are the federal guidance that defines the general criteria affecting allowability of costs reimbursed from grant awards.

Article 5.6.5 of the City's contract states that the City is liable to AWD for any disallowed or questioned costs identified through a monitoring report, investigation, review, or audit. Disallowed or questioned costs are to be refunded to AWD within 30 days of the issuance of the report in the event the costs cannot otherwise be resolved.

Twenty-six non-payroll expenditures totaling $496,622, or 4.4 percent of total expenditures made from October 2000 through June 2002 were tested. Testwork was not completed for 24 non-payroll or 87 payroll expenditures selected due to audit time and resources limits. Questioned costs paid to sub-contractors and participants were identified and are discussed in those sections (pages 17 and 21) of this report.

Additionally, the Program's internal controls related to the use of gift cards as incentives and supportive costs for participants were evaluated. A review of gift card expenditures and controls was based on $37,000 in findings identified by the City's independent auditors during the Single Audit for the fiscal year ended September 30, 2001.

The following questioned costs from the judgmental sample were identified:

- One expenditure for $16,401 for testing materials and related items included sales tax paid of $1,197, which is not allowed.

- Gift card expenditures of $7,671, in addition to the $37,000 amount, were not supported by adequate documentation.

Audit staff discussed the questioned costs related to the sales tax paid with Program staff in November 2002.

The issues related to the gift card expenditures were presented to Department of Community Initiatives (DCI) Management during the presentation of results of the 2001 Single Audit in the spring of 2002. While DCI did attempt to resolve those issues, the internal controls put in place to address the Single Audit findings are still not adequate to support the expenditures. Therefore gift card purchases since October 1, 2001, have not been adequately supported. It was also noted that gift cards were not adequately safeguarded and that some had expired under the control of Program staff. Gift cards are cash equivalents and as such are very desirable for personal use. Therefore unique efforts should be made to ensure that they are carefully monitored and issued.

Recommendations for Issue B (2)

Department of Community Initiatives Management needs to:

- Immediately apply for a refund for the payment of sales tax through the vendor by supplying the tax exemption form.

- Provide staff with adequate training on purchasing procedures to ensure that sales tax is not paid.

- Develop records to adequately support gift card issuance, which should document the custody transfer from purchase of the gift cards until their distribution. Records should also include the receiving participant's name, date received, and the reason the participant was given the gift card. Participants issued gift cards should sign a receipt to be included in the individual's file.

- Adequately safeguard and inventory gift cards weekly. Identify expiration dates for remaining gift card inventory, and issue them prior to expiration.

- Ensure that any sub-contractors who issue gift cards to participants for supportive services or as incentives implement the same internal control practices established by DCI.

Questioned costs of $8,868 are to be refunded to Alamo Workforce Development Inc. (AWD) within 30 days of issuance of this report in the event the cost exceptions cannot otherwise be resolved.

DCI's Response dated June 23, 2003:

DCI concurs with the finding and recommendations.

DCI requested the COSA Finance Department to research and initiate an action to the vendor (McGraw Hill Companies) for reimbursement of taxes on invoice R657704A01. The COSA Finance Department is researching to see if a credit was ever taken for the payment of taxes. The backup to this check is in a recently damaged building and has delayed pulling the documentation. DCI has also informed staff that sales tax should not be paid on purchases made by COSA.

YOGO 2002-01-02-11 (YO Guideline for Operations), dated January 2, 2002 addressed gift card policy and procedures. Internal database records were kept on gift cards and recorded many of the distributions, but we recognize these records were not complete. These gift cards were $10 stipends primarily for food and essentials and were used as a recruiting and reward tool. We did have cards that expired, which is not a good practice, but we tried to control the number provided to participants and to base the issuance on a program accomplishment.

The current YO Social Services Manager decided there will be no new purchases of gift cards and issued a policy memorandum on April 28, 2003 to assure that the remaining inventory of gift cards are safeguarded and properly issued and documented. Additionally, YOGO 2003-05-12-01 dated May 12, 2003 was issued to cover current policies and procedures for gift cards.

Finance's Response dated June 3, 2003:

Check #40119 dated March 15, 2001, was issued to McGraw-Hill. It does appear that $1,197 in tax was paid. The Finance Department is researching this vendor to see if a credit was ever taken for the payment of taxes. Due to a recent accident at the municipal storage building, support for this check could not be retrieved at this time.

Issue B (3): Audit Requirements

Articles 2.4 and 5.6.1 require that the City have a program audit annually. The Youth Opportunity Program was selected as a major program in the Single Audit for the fiscal years ended September 30, 2001, and 2002, respectively. The Youth Opportunity Program was not audited as a major program during the Single Audit for the fiscal year ended September 30, 2000. Had the external auditors been aware of the Alamo Workforce Development, Inc. contract requirement for an annual audit they would have selected the Program earlier.

Recommendation for Issue B (3)

Department of Community Initiatives should coordinate with the Finance Department to ensure that audits continue to be conducted in the future as contractually required.

DCI's Response dated June 23, 2003:

The COSA Finance Department reported that the YO program was included as part of the Single Audit for Fiscal Year 2000, but was not selected at that time. At September 30, 2000, YO program expenditures were $386,552 and may have not qualified as a major program. YO was audited as a major program in Fiscal Years 2001 and 2002.

Finance's Response dated June 3, 2003:

The program was included as part of the Single Audit for fiscal year 2000 but was not selected as a major program at that time. There seems to be some ambiguity as to whether the contract language would have required that this program be audited as a major program for year 1 when expenditures at September 30, 2000 were reported as $386,552. It was audited as a major program in fiscal year 2001 and 2002.

Issue B (4): Property Management

Article 3.7.6 of the contract with Alamo Workforce Development, Inc. (AWD) states that the City will conduct an annual physical inventory of all property used by the Program. The physical inventory will include a reference to the contract under which funds were allocated to make the purchase; the inventory tag number; and all other federal, state, or AWD required inventory information.

Article 4.23 of the contract with AWD, states the City will report any loss, theft, or damage to property purchased with grant funds to AWD and the local police department, as soon as possible following the discovery of loss, theft, or damage, but not later than ten days following the actual loss, theft, or damage.

Department of Community Initiatives (DCI) implemented an internal directive regarding property and inventory procedures to ensure compliance with the AWD contract which states that for stolen or missing equipment a police report will be filed within 24 hours of loss. The internal policy requires DCI to notify AWD within three business days of property loss and to provide AWD with a copy of the police report within one day of issuance.

Department of Community Initiatives staff stated that a physical inventory of property had been performed annually. No documentation was given to audit staff to support this assertion.

Staff provided a property listing which included 1,066 items purchased with grant funds valued at about $585,000. Thirty items randomly selected were tested with a total value of $19,332, or 3.3 percent of the Program's property value. All items were located at the physical location indicated on the property listing.

Several issues were identified related to the property listing and/or the safeguarding of these items:

- The property database included information required by federal, state, and local requirements except that:

  - The listing did not include acquisition costs for 281 items, or 26 percent of the items.
  - Twelve property items tested did not identify the user of property.

- Property, which in most cases is highly desirable for personal use, was inadequately safeguarded since Program records indicate that 15 items valued at $17,530 were reported stolen. These items were reported to the police; however, none were reported to the police within 24 hours of being identified as required by the Department of Community Initiative (DCI) internal directive.

- Three separate thefts were identified and reported to the police; however, none of the thefts were reported within 24 hours of being identified as required by the DCI internal directive. Subsequent to the audit fieldwork, two of the stolen items had been recovered and returned to service. City staff determined that a Program employee was responsible for one of the stolen items.

- Program staff could not provide documentation that they notified Alamo Workforce Development, Inc. of the stolen items.

The total property value recorded in the City's accounting records was $451,958 as of September 30, 2002. The approximate $133,100 difference between the Youth Opportunity listing and the amount recorded in the City's accounting records is explainable. The City's capitalization policy, since 2002, requires that property worth $5,000 or more be recorded in the accounting records as capital assets. Items over $1,500 but less than $5,000 may be recorded as fixed assets or tracked property that is expensed. The Youth Opportunity listing includes property valued at $100 or more as required by DCI departmental policy. State policy requires all property valued at $500 or more to be tracked.

Tracking these costs and items is necessary under the contract as the City may be asked to return these to AWD when the grant periods end.

Recommendations for Issue B (4)

Department of Community Initiatives (DCI) should comply with the property management requirements of its contract with Alamo Workforce Development, Inc. (AWD), especially the timely reporting of thefts to AWD. Specifically, DCI Management should:

- Develop, implement, and monitor an internal control system to ensure that property (as defined by the contract) is properly recorded, reported, and safeguarded to prevent misuse, loss or theft.
- Perform physical inventories and reconcile with property records at least once per year as required by the contract and maintain the documentation of results.
- Notify the police and AWD within the prescribed time period when property is stolen or missing.
- Determine what property items are missing or unaccounted for that will not be available for potential return to AWD at Program termination. Report this information as soon as available to AWD and obtain its position now on any reimbursement required.

DCI's Response dated June 23, 2003:

DCI does not concur with the finding or recommendations.

DCI has developed and maintains a perpetual inventory system that ensures YO property items are properly recorded and continually updated. The auditors tested 30 YO property inventory items. All 30 items were found in the location recorded in the DCI inventory system. The YO inventory monitor has performed physical inventories with the help of the monitoring staff and other DCI employees. The City Auditor staff did not ask for records of physical inventories (actual counts and verification of on-hand inventory) during the audit and reported no documentation was provided. DCI provided notes/records that were used in the inventory process on June 2-3, 2003.

In program year one, DCI sustained a loss of 15 items and two of these items were later recovered. DCI requested and received a San Antonio Police Department review of our YO facilities. AWD was notified of the property losses that occurred in program year one and recognized DCI's efforts to avoid future losses. Documentation of this notification to AWD are readily available (copy attached), however the audit staff did not request it from the YO managers. For the minor property losses after April 15, 2002 (date of AWD Property Directive), DCI provided the proper loss forms and police reports to AWD.

DCI filed police reports on all losses. However, in an attempt to determine that items were not simply misplaced, DCI did exceed our own 24-hour police notification policy. We will amend our policy to notify police as soon as a loss is determined to have occurred. DCI has properly safeguarded the inventory and our losses over three YO program years have been less than three percent of the inventory value. DCI keeps technical equipment items in locked rooms with limited access, uses sign-out logs, and employed security personnel at high-risk locations.

The total DCI YO inventory exceeds the City's records by over $100,000. The auditors reported this difference was due to the City's capitalization policy involving the recording of fixed assets and property. We attribute this situation to AWD's purchase of computers because it was independent of the COSA Finance records. DCI provided the City Finance Department's Fixed Assets Section with a complete inventory in October 2002 that included all items purchased by AWD.

Based on the audit, DCI examined why selected YO inventory items were missing either unit prices or an assigned person. Our computer monitors, with few exceptions, do not have a unit price since the purchase orders contained one price for the entire system (monitor, keyboard, mouse, and CPU). For the YO inventory, DCI recorded the system cost with the CPU and has added a footnote to the inventory record. The remainder of the unpriced items were donated to YO and were at no costs to the program. Items found in a common building area and used by the staff may not have been assigned to a person, but can be easily located through the building and room number.

Auditor's Comment:

During audit fieldwork, audit staff requested, from the inventory staff person, documentation that the Department of Community Initiatives (DCI) had notified Alamo Workforce Development, Inc. (AWD) of the thefts, however no evidence of notification to AWD was provided. Attached with their responses, DCI provided documentation to support that they notified AWD of missing/stolen items. The evidence is not sufficient and does not cover all items reported missing/stolen.

Approximately one month prior to the issuance of the draft report, audit staff requested documentation of physical inventory performed. DCI staff indicated that notes were available, however the documents were not provided to the audit staff, until after issuance of the draft report. DCI did provide notes/records on physical inventory performed, inventory reconciliation to City accounting records, and notes on most recent inventory taken in March 2003 after issuance of the draft report. Based on the documentation and discussions with DCI staff, the information indicates that a proper inventory audit trail is not maintained, inventory reconciliation to City documents is inadequate, and that an annual physical inventory is not performed as contractually required.

Issue B (5): Performance Measures

During the audit procedures, it was identified that performance outcomes tracked in the U.S. Department of Labor (DOL) automated database, in the City's approved Annual Budget for fiscal years 2000 – 2002, and in reports to the Alamo Workforce Development, Inc. (AWD) are not compatible with performance standards stated in the contract. Although the reports share some correlations with the contract performance standards, to compare them is difficult and in some cases appears to be impossible.

Comparing performance goals and actual performance in the City's approved Annual Budget identified that for each fiscal year, the Program met approximately 50 percent of its planned goals as summarized in the table below.

Fiscal Year	Planned Performance Measures	Achieved	Not Achieved
2000	3	1	2
2001	12[1]	5	5
2002	12[2]	5	5

1, 2 Of the planned performance measures, two were not reported in the City's approved annual budget for fiscal year 2002-2003 as actual for fiscal year 2000-2001 or as estimates for fiscal year 2001-2002.

Other analysis performed is summarized as follows:

Other Performance Measures	Program Year 1 March, 2000 – June, 2001	Program Year 2 July, 2001- - June, 2002	Nine months of Program Year 3 (from July, 2002 - March, 2003)
Personnel cost per participant	$1,273.38	$2,827.57	$1,468.14[1]
Non-personnel cost per participants	$1,536.54	$2,464.82	$1,372.79[2]
Participant to core staff ratios:			
• City actual	47:1	22:1	44:1[3]
• Expected per contract	20:1	50:1	Not stated

[1] Reflects nine months of year three personal services expenditures through March 31, 2003, per FAMIS.
[2] Reflects nine months of year three non-personal services expenditures through March 31, 2003, per FAMIS.
[3] Reflects number of participants to be served for FY 02-03 per City's approved Annual Budget FY 02-03 and core staff data from Program budget for year three.

According to the grant application for the Youth Opportunity grant and a footnote in the City Budget from fiscal year 2001, the average cost per participant should be a minimum of $5,000 per year for out of school youth and $1,500 for in school youth, respectively.

The following were identified related to the cost per participant:

- Program Year 2 appeared to meet the $5,000 annual spending requirement. Year 1 did not and Year 3 is incomplete at this time.

- Personnel costs represented approximately 45 percent of the total cost per participant for year 1, 53 percent for year 2, and 52 percent for year 3, as of March 31, 2003.

- Non-personnel costs represented about 55 percent of the total cost per participant for year 1, 47 percent for year 2, and 48 percent for year 3, as of March 31, 2003.

The Program met its participant to core staff ratio for year one, as shown in the Statement of Work for the March 2000 contract, however it did not meet its goal for year two. A participant to core staff ratio is not stated in the contract for year three. Based on data presented for year three in the City's approved Annual Budget for fiscal year 2003, the Program would have a 44:1 participant to core staff member ratio.

Recommendation for Issue B (5)

It is not clear why uniform measures are not used for all reporting purposes. Department of Community Initiatives Management should track performance standards that are consistent with those reflected in the contract. These should also be used for budget purposes. Additionally, performance outcomes presented in the City's approved Annual Budget should be consistent from year to year. The variations result in greater staff work to calculate, track and report. The results, based upon alternative measures and that are not presented on a consistent basis can be confusing and make it difficult for decision makers or third parties to evaluate the cost effectiveness of this Program.

DCI's Response dated June 23, 2003:

DCI concurs with finding and the recommendation.

DCI will work with Asset Management, the Performance Analysis Team, and AWD to improve the performance measurement process. DCI agrees uniform measures would make analysis and review more understandable and comparable. DCI is revising YO program year four performance measures for the Adopted Budget. We anticipate that this revision will provide a more understandable scorecard that ensures program measures focus on program outcomes.

The YO program met about 50 percent of the performance measures contained in the City's Approved Budget for program years one and two. Under YO program year one and two, DCI included performance measures in the City's Adopted Budget for YO that did not match all the contracted measures and included relevant measures that were not contractually required. Additionally, the AWD contract contains performance goals for the Department of Labor's program year, which differs from the City's budget year. Because the DOL approved participant

database (e-TEAMS) was neither available nor implemented until well into the second grant year (June 2002), several of these measures were incomplete or not available. Additionally, e-TEAMS application decisions and training by AWD occurred in program year three.

The auditors performed an additional analysis of personnel and non-personnel cost per participant. The auditors did not define core staff positions or type of participants (recruits, enrolled, and active members) used in the analysis. We used total staffing and total participants and the costs per participant were reasonably stated. However, the audit did an analysis of the ratio of participants to core staff and incorrectly stated this was a contractual measure. Additionally, the YO staffing and participants were not at full levels in program year one and the ratio shows an extremely high number of participants per staff in relation to program year two. Since these are neither contract measures nor tracked by the YO program, we are unsure of their computation or value.

The average cost per youth ($5000) is not a DOL or a COSA/AWD contract measure. This computation is a DCI measure that did not specify a minimum value to be achieved as stated in the audit report. DCI uses the measure in conjunction with our other performance measures.

Issue B (6): Staffing

The number of Youth Opportunity staff positions filled did not agree to the number of authorized positions per the contract with Alamo Workforce Development, Inc. for Program years one or two. The City agreed to provide Youth Opportunity participants with services described in the Youth Opportunity grant application using staffing complements authorized in the contract. The City's contract with Alamo Workforce Development, Inc. authorized 83 positions for the prompt start-up and operation of the Youth Opportunity Program during year one, and 107 positions for year two.

As of June 30, 2001, the last date of Program year one, the Youth Opportunity Program had only filled 40 positions. When staffing levels are significantly less than the number of positions authorized to carry out expected Program services, the number of youth served and the level of service provided was impacted.

As of June 30, 2002, the last date of Program year two, the Youth Opportunity Program had 113 positions filled. The six unauthorized positions impacted the services provided to Program participants.

Recommendation for Issue B (6)

Department of Community Initiatives Management should comply with its contract with Alamo Workforce Development, Inc. and staff the Youth Opportunity Program as required or amend the contract.

DCI's Response dated June 23, 2003:

DCI does not concur with the finding and recommendation.

YO staffing levels for program years one and two are shown below for permanent positions.

Program Year	*Positions Authorized*	*Positions Filled*	*Personnel Hired*
One (July 00- June 01)	*83*	*38*	*61*
Two (July 01 – June 02)	*107*	*106*	*125*
Three (July 02 – June 03)	*104*	*104*	*104*

In YO program year one, DCI interviewed 390 potential candidates and recommended the hiring of 90. From this process, DCI did employ 61 permanent employees. The staffing positions that were not totally filled were caseworkers and job developers. The initial months of YO did not require a full complement of these positions since the recruits and enrollments started in September 2000 (three months into the DOL year). In YO program year two, the 113 positions cited in the audit included eight temporary employees. These temporary employees did not exceed 90 working days. By removing the temporary hires, YO did not exceed the authorized positions (copy attached). During YO program year three, funding reductions reduced the number of YO employees from 104 to 69.

DCI continually discussed YO staffing levels with AWD during all program years. Our staffing levels were reported to AWD and there was no period when staffing was not in compliance with the contract. DCI sees no reason to amend its contract with AWD over staffing.

Auditor's Comment:

The authorized staffing levels stated are from the approved budget attached to the contract for the first and second Program year, which corresponds to the "Positions Authorized" presented in the table provided by the Department of Community Initiatives (DCI). For Program year three, the budget reflects 80 authorized positions in addition to 22 transitional positions, which is not accurately reflected on the DCI table.

Issue B (7): Sports and Recreation

According to the City's contract with Alamo Workforce Development, Inc., sports and recreational programs will be available to participants through the City's Parks and Recreation Department (Parks). The Department of Community Initiatives has not entered into an agreement with Parks to provide sports and recreational programs to Youth Opportunity participants. Sub-contractors provide sports and recreational programs to participants per contracts between the City and those sub-contractors.

Recommendation for Issue B (7)

Department of Community Initiatives (DCI) Management should comply with its contract with Alamo Workforce Development, Inc. (AWD) and implement a sports and recreation component for Youth Opportunity participants partnering with the City's Parks and Recreation Department. If DCI Management, in agreement with AWD, determines that using sub-contractors to provide these services to participants in lieu of leveraging other City Department programs, then the contract should be amended to appropriately reflect this.

DCI's Response dated June 23, 2003:

DCI does not concur with the finding and the recommendation.

A review of the contract documents, including the Application and the Statement of Work for each year (approved by AWD), shows that YO intended to "collaborate" with the City Parks and Recreation Department in program year one and intended to offer recreational activities "in conjunction with" this City Department in program year two. However, there was neither a contractual requirement nor the intent to enter into a formal agreement with Parks and Recreation Department to provide recreational services to participants.

The DCI Director, the Parks and Recreation Assistant Director, and YO managers agreed to partner and leverage City resources to offer recreational services to YO members on November 14, 2001. Both DCI and the Parks and Recreation Department agreed a contractual relationship was not required in order for YO participants to avail themselves of the services offered by the Parks and Recreation Department. Several follow-on meetings were held in the spring of 2002 to coordinate YO and Parks and Recreation program activities. DCI does not see the need to amend its contract to involve sub-contractors in these activities.

Finding 3: ***Fiscal monitoring by the Department of Community Initiatives and the Finance Department did not identify and address fiscal management, financial, and accounting control issues.***

The City's Finance Department (Finance) plays an essential role in ensuring that the City's control objectives are met. Finance is responsible for accurately recording appropriations in the City's accounting system and reviewing financial records for accuracy. Financial and accounting controls were not effective in detecting and correcting the financial and accounting control issues addressed in this report. It was identified that internal controls in place at the Department of Community Initiatives and the City's Finance Department were not effective in monitoring the fiscal management of the Youth Opportunity Program.

In its first year, the Program funded one fiscal position; in year two it funded five; and in year three the Program reduced its fiscal staff to two positions. The AWD grant allowed for properly staffing positions that would monitor the fiscal performance and activities of the Program. It is not clear why DCI did not use this opportunity to its greatest advantage in all three years of the Program. Had proper staffing occurred, then the exceptions identified in this audit and other reviews might have been fewer.

The City Internal Auditor and audit staff first discussed these issues with Finance staff on April 21, 2003 and with DCI Management and key supervisory staff on April 22, 2003.

DCI's Response dated June 23, 2003:

DCI does not concur with the finding.

The YO program employed a fiscal officer, two accountants, and the grants management officer provided oversight during program years one through three. Staffing started with one fiscal officer in program year one and included two accountants in program year two. Funding reductions in program year three reduced staffing by one accountant. The YO program fiscal structure was similar to other DCI programs.

DCI has instituted additional training for the fiscal staff, issued a fiscal accounting directive that requires monthly expense and revenue reconciliation, and assigned monthly monitoring of revenue and expenditure reports to our quality assurance staff. Additionally, the Fiscal Planning Manager provides each Social Services Manager with a monthly program financial status report. The assistant directors also review their respective divisions program and fiscal status on a monthly basis. DCI's Quality Assurance Manager and Fiscal Planning Manager report directly to the DCI Director, monthly, on the performance and budget of the department.

Issue C: Recording of Contract Awards and Modifications

The Youth Opportunity Program receives substantially all funding from Alamo Workforce Development, Inc. (AWD).

The City's Finance Department is responsible for recording grant awards in the City's accounting records as appropriated revenue based on ordinances approved by the City Council. Additionally, Finance adjusts appropriated revenue based on changes to grant award amounts.

AWD issued two contract modifications that changed the amount of the grant funds awarded to the City. These modifications were approved by City Council ordinance; however, the Finance Department did not accurately record them in the FAMIS accounting system.

Additionally, the Department of Community Initiatives (DCI) received a one-time award for the Youth Opportunity Program from a private source. This amount was recorded as revenue in the income statement, but Finance did not record this funding as appropriated revenue. DCI staff regularly reviews the accounting records for the grant, but did not detect that the two modifications and the private award were not accurately recorded. The two increases and one decrease in awards are described as follows:

- An increase of $1,000 in Program year one grant funding received from the Eureka Community—Essie Birgan Mentor Award.

- A decrease of $52,126 in Program year two grant funding received from AWD (Ordinance 96053 approved June 27, 2002).

- An increase of $283,041 in Program year three funding received from AWD (Ordinance 97171 approved February 6, 2003). This ordinance also ratified that the Youth Opportunity Program could expend $1,694,705 in year two funding that was unspent at the end of Program year two. Finance recorded the entire amount of $1,977,726 ($283,041 plus $1,694,705) as additional funding in the City's accounting records. The $1.6 million should have been simultaneously reduced in year 2, and until then the cumulative awards are in error.

As a result of these errors and omissions, the trial balance for the Youth Opportunity Program is overstated by $51,126 at September 30, 2002. In addition, the March 31, 2003 trial balance reflects $1,745,831 ($1,694,705 plus $51,126) in overstated available funding.

Recommendation for Issue C

The Finance Department (Finance) should record revisions to Program years two and three award amounts to properly reflect the contract modifications. The project for the year two grant should reflect a decrease of $52,126. Year 3 reflected an award increase due to a February 2003 ordinance of unspent funds for year 2. Finance should record an adjustment to year 2 funds to correct the cumulative overstatement of $1.6 million in awards for this Program.

DCI's Response dated June 23, 2003:

DCI partially concurs with the finding and recommendation.

DCI requested that the Finance Department ensure the revisions in program year two be made to properly reflect the contract modifications. For program year two, we have requested that the Finance Department record a decreasing adjustment of $52,126 (Ordinance 96053 awarding to another agency) and a decreasing adjustment of $1,694,704.86 (Ordinance 97171 carry-forward to program year three). The total budget amount for program year two would equal $4,562,044.14. The Finance Department reported the above corrections were booked on February 28 and May 28, 2003.

For program year three, the Finance Department has recorded the necessary revisions. During program year three, the City was initially awarded $4,731,655 (Ordinance 96053 new funding), additional funding of $283,041.14 (Ordinance 971710 and a carry-forward from program year two of $1,694,704.86 (Ordinance 97171 carry-forward from program year two. The total budget amount for program year three equals the amount of $6,709,401, which is currently reflected in the City FAMIS Report 66. All funding actions were covered by ordinances.

Finance's Response dated June 3, 2003:

- *The $1,000 third party contribution was properly recorded as revenue. In order to appropriate the funds, an ordinance is required.*
- *The $52,000 reduction was not recorded which was overlooked by Finance. On May 31, 2003 the reduction was posted to the City's accounting records.*
- *For year 3, the entry to book the $1.6 million authorized to be carried forward was recorded correctly. We received a detailed listing from DCI on which line items to increase in the year 3 budget. What is pending is an adjustment needed for year 2 with details from DCI on which line items to adjust/reduce.*
- *The $283,000 was correctly booked into year 3 at the same time that we booked the $1.6 million authorized budget carry forward. This journal entry was done on February 28, 2003.*

Auditor's Comment:

No documentation was provided to support the assertion that a decreasing adjustment in the amount of $1,694,704.86 for Program year two was recorded to the City's accounting records. The FAMIS Report 66 for the month of May 2003 does not reflect this decrease. Per Finance's response, this information was still pending from the Department of Community Initiatives to record the decrease. Without support for this assertion, the issue remains to be resolved and should be addressed immediately.

Issue D: Fiscal Management

The following table reflects the amount of initial Youth Opportunity Program grants funds awarded to the City and accounts for funding adjustments, issues identified, expenditures, and encumbrances to arrive at a revised grant award balance after errors identified in the audit are corrected and an approximate fiscal status of the Youth Opportunity Program at May 31, 2003.

	Program Year 1 March 20, 2000 - June 30, 2001	Program Year 2 July 1, 2001 - June 30, 2002	Program Year 3 July 1, 2002 - June 30, 2003	Total All Program Years
Total Grant Award recorded in FAMIS as Due From Other Agencies	**$6,308,875.00**	**$6,308,875.00**	**$4,731,655.00**	**$17,349,405.00**
Adjustments:				
February 6, 2003, per Ordinance 97171, year 3 funding increase from AWD			$283,041.14	$283,041.14
February 6, 2003, per Ordinance 97171, carry-forward of unspent year 2 funds to year 3			$1,694,704.86	$1,694,704.86
Revised Grant Award/Appropriations Regular per FAMIS as of 3/31/03	**$6,308,875.00**	**$6,308,875.00**	**$6,709,401.00**	**$19,327,151.00**
Audit Issues Identified:				
Third Party Contribution not recorded as an Appropriation in FAMIS as of 3/31/03	$1,000.00			$1,000.00
Contract Modifications:				
De-obligation of funds not recorded in FAMIS as of 3/31/03.		($52,126.00)		($52,126.00)
Matching entry to reduce year 2 funds for carry-forward from year 2 to year 3 not recorded in FAMIS as of 3/31/03		($1,694,704.86)		($1,694,704.86)
Contract Modifications Total	$1,000.00	($1,746,830.86)	$0.00	($1,745,830.86)
Revised Grant Award at 3/31/03	**$6,309,875.00**	**$4,562,044.14**	**$6,709,401.00**	**$17,581,320.14**
Expenditures Regular, per FAMIS as of 3/31/03	($6,318,984.82)	($8,360,672.23)	($1,959,817.53) [A]	($16,639,474.58)
Subtotal	**($9,109.82)**	**($3,798,628.09)**	**$4,749,583.47**	**$941,845.56**
Encumbrances Regular, per FAMIS as of 3/31/03		($515,885.54)	($474,468.78)	($990,354.32)
Subtotal: Grant Award Balance at 3/31/03	**($9,109.82)**	**($4,314,513.63)**	**$4,275,114.69**	**($48,508.76)**
April 22, 2003 memo from DCI to un-encumber funds (not posted to FAMIS prior to issuance of draft report)		$515,885.54	$413,446.00	$929,331.54
REVISED GRANT AWARD BALANCE (After errors are corrected per draft report dated May 19, 2003.)	**($9,109.82)**	**($3,798,628.09)**	**$4,688,560.69**	**$880,822.78**
Expenditures recorded during April and May 2003, per FAMIS as of 5/31/03		($95,207.75)	($706,861.07)	($802,068.82)
Subtotal	($9,109.82)	($3,893,835.84)	$3,981,699.62	$78,753.96
Encumbrance Adjustment			$9,519.18	$9,519.18
REVISED GRANT AWARD BALANCE at 5/31/03	**($9,109.82)**	**($3,893,835.84)**	**$3,991,218.80**	**$88,273.14**
Year 4 Expenditures recorded in May 2003, per FAMIS as of 5/31/03 (Year 4 begins July 1, 2003)				**($1,200.00)**
Grant Award Available at May 31, 2003				**$87,073.14**

A Reflects nine months through March 31, 2003.
AWD Alamo Workforce Development, Inc.

It was noted that:

- Youth Opportunity Program grant expenditures, as of March 31, 2003, in Program years one and two of $6,318,984.82 and $8,360,672.23, respectively, were in excess of the revised grant award amount by $9,109.82 for year one and $3,798,628.09 for year two.

- Program staff indicated that some expenditures were recorded in the City's financial records in the wrong Program year. As of April 2003, Department of Community Initiatives fiscal staff had not closed out Program year two; therefore, some expenditures recorded in the City's financial records for Program year two should actually be recorded in Program year three.

- Had the errors and omissions not been detected, the Program would have overspent the cumulative grant funds awarded for Program years one, two, and three by at least $48,509. The un-encumbrance of funds made available about $929,332 of funding.

Once the revenue, de-obligation of funds and un-encumbrances are properly recorded in FAMIS, a cumulative total of about $880,823 is available for the Program for the remaining three months of the Program year.

Recommendation for Issue D

The audit staff met with the Department of Community Initiatives (DCI) Management and fiscal staff on April 22, 2003. Following the meeting, DCI reviewed the encumbrances and prepared a memorandum directing the City's Finance Department to un-encumber funds totaling about $929,332. DCI's Director indicated that expenditures would be carefully reviewed so that the Youth Opportunity grant funds will not be overspent before the end of the third year, which is June 30, 2003.

DCI has policies regarding the closeout of multi-year grant programs in the City's accounting records at the end of each program year. However, these policies were not followed in this case. DCI Management should ensure that fiscal and Program staff understand the control objectives regarding proper fiscal management and monitoring of all its grant programs. In addition, DCI Management should closeout the first two years of the grant Program in the City's accounting records immediately.

DCI's Response dated June 23, 2003:

DCI concurs with the finding and recommendation.

As stated in Issue C, DCI initiated corrective through the City's Finance Department and confirmed that all required funding adjustments were made. DCI will also request the Finance Department to reverse out a duplicate charge of $9,124.11 to YO program year one, which removes the negative balance for that year. The revised grant balances shown for program years two and three represent March 31, 2003 totals as stated in the audit. The grant balance as of March 31, 2003 was appropriately shown as $880,822.

DCI has closed the City's accounting records for YO program year one and is working with AWD to complete action on program year two. DCI is closely monitoring the remaining program year three expenditures.

Auditor's Comments:

As of May 31, 2003, the City's accounting records reflect expenditures in excess of grant awards for Program year one, two and four as follows:

Program Year	Ending Date	Grant Award (Revised) As of May 2003	Actual Expenditures As of March 31, 2003[1]	Actual Expenditures As of May 31, 2003[2]	Grant Award Less Expenditures Thru May 2003
1	6/30/2001	$6,308,875	$6,318,985	$6,318,985	($10,110)
2	6/30/2002	6,256,749	8,360,672	8,455,880	(2,199,131)
3	6/30/2003	5,014,697	1,959,818	2,666,679	2,348,018
4[3]				1,200	(1,200)
		$17,580,321	$16,639,475	$17,442,744	$137,577
			Year 3 Encumbrances Regular, per FAMIS as of 5/31/03		($51,504)
			Third Party Contribution in Year 1		$1,000
			Grant Award Available at May 31, 2003		**$87,073**

[1] Based on the City's accounting records at March 31, 2003.
[2] Based on the City's accounting records at May 31, 2003.
[3] Year 4 begins July 1, 2003.

Had the Department of Community Initiatives (DCI) fiscal staff performed monthly reconciliation of Youth Opportunity Program expenditure billings to accounting records, the errors would have been detected. At May 31, 2003, the grant award balance is about $87,073.

The Department of Community Initiatives should ensure that its fiscal staff performs monthly reconciliation of Program expenditure billings to accounting records and that any errors identified are immediately provided to the Finance Department for correction.

Issue E: Recording of Accounts Receivable

The City's Finance Department (Finance) records a receivable at the beginning of the grant period in the total amount of the award. As revenue is received from Alamo Workforce Development, Inc. (AWD), the receivable account is reduced.

Establishing the full receivable assumes funds are earned and due now. The AWD grant award is a cost reimbursement award, in which no funds are due until expenditures are incurred. The result is an overstated receivable account.

Finance indicated that recording the receivable at the beginning of the grant period ensures that the grant cannot be overspent. However, it was noted that the Youth Opportunity Program is at risk of incurring expenditures above the amounts of the grant award through the first three Program years. This indicates that this control process has not operated as intended by Finance.

Recommendation for Issue E

The Finance Department should discontinue the practice of recording receivables before the City is eligible to receive the funds. In this case, it would be the month that the reimbursed costs are expended.

DCI's Response dated June 23, 2003:

The City's Finance Department provided a response to the City Auditor concerning the methodology used for accounting for receivables on June 3, 2003.

Finance's Response dated June 3, 2003:

Internal Audit recommends that we cease booking grant awards as receivables as they are not fully earned until reimbursable expenditures are incurred. These receivables are fully off set by a deferred revenue g/l account. Internal Audit states that Finance indicated that we record the receivable at the beginning of a grant period to ensure that the grant cannot be over spent. This procedure is not really used as a tool to track expenditures but more as a tool for information as to what the grant awards are. Grant budgets are the most effective tools that a department can use to monitor grant revenues and expenses. Departments do not currently receive information or reports for balance sheets.

Issue F: Timeliness of Reimbursement

The Youth Opportunity Program is a cost reimbursement grant. The City's General Fund pays for the expenditures as they are incurred. A request for reimbursement invoice must be submitted to Alamo Workforce Development, Inc. (AWD) on a monthly basis to reimburse the General Fund. Reimbursements should be made, at least, within one month of the request/invoice. The contract Section 3.5.2 states that invoices are late (not timely) if submitted more than thirty days after the month of expenditures. AWD can deny payment on late invoices at its discretion.

Sixty-three invoices from the three years, for expenditures incurred between July 2000 and March 2003, were reviewed with the following issues noted:

- Fourteen contained mathematical errors (some of which had manual corrections)
- Forty-one contained incorrect cumulative expenditure totals.
- Twenty-two were submitted later than one month following the month the expenditures were incurred. This does not meet the required 30-day invoicing as required by Section 3.5.2.
- At least forty-three were not reimbursed in full, by AWD, within a month of the invoice date.
- The City's General Fund has lost approximately $16,200 in investment due to the untimely invoicing by DCI staff for this Program. The seriousness of this problem has increased substantially during Program years two and three.
- Based upon the contract, Sec. 3.5.2, the City could suffer more significant financial consequences if the reimbursement requests continue to be untimely.

Recommendation for Issue F

City Management should immediately address the control issues that have contributed to DCI delays in submitting reimbursement requests to AWD.

In addition, City Management should more carefully monitor the timeliness of AWD payments to the City for invoicing in the future.

DCI's Response dated June 23, 2003:

Both DCI and AWD perform their independent reviews of these invoices. AWD may require additional documentation before payment on items and there are instances where the review process identifies errors. Both of these conditions will result in manual corrections to the invoice. The auditors informed us that they did not determine the reasons manual corrections were made to the invoices. The auditors did find cumulative errors on invoices and provided documentation to allow corrections.

DCI has worked with AWD to reduce the amount of outstanding receivables due to the City. In YO program year three, $1.3 million or about 20 percent of the grant year budget was collected in a three-month period (April – June 2003). At this time, DCI is working with AWD to collect the remaining receivables due to the City.

The City's Finance Department also provided a response to the City Auditor concerning the City's cash management policy on June 3, 2003.

Finance's Response dated June 3, 2003:

Internal Audit states that the General Fund pays for expenditures as they are incurred but this is not totally accurate. What occurs is that on all reimbursable grants, pooled cash is used to cover disbursements until such time that cash is received from agencies based on requests for reimbursements. Each fund, such as the General Fund, Special Revenue funds, Enterprise funds, etc., each own a share of the pooled cash and therefore as there is less cash in the pool, there is less cash in total to earn interest and less interest to be distributed to all funds.

Auditor's Comment:

If errors are identified, the corrections should be carried through to cumulative totals and the proper staff should be informed of the corrections so that corrections are made on subsequent invoices. Invoices prepared for cost reimbursement should be accurate to ensure complete reimbursement of costs.

Emphasis should always be placed on obtaining cost reimbursements timely and in full. DCI should ensure that DCI Management and/or City Management are involved when cost reimbursements are delayed from AWD.

CONTRACTING IMPROVEMENTS

Finding 4: ***Areas were identified where contract processes could be streamlined to create greater efficiencies and effectiveness.***

The City should develop several versions of standard contracts that are appropriate for the amount of funding provided to sub-contractors and the services that the City desires that sub-contractors provide. City contracts with small businesses should not include the same Operational Guidelines and General Procedures as used for larger sub-contractors, those exceeding $300,000.

The Department of Community Initiatives contracted with the National Institute of Sobriety, Education, Rehabilitation and Recovery, (NISERR) Inc. to provide Youth Opportunity Program participants with sports and recreational programs for year two (January 1, 2002 to June 30, 2002), and year three (July 1, 2002 through June 30, 2003). The grant funds awarded to NISERR were $40,000 for year two and $97,000 for year three.

City Ordinance No. 95101 approved the City Manager to execute a professional services contract between the Department of Community Initiatives and NISERR; the standard delegate agency contract was executed. Using delegate agency contracts with parties whose business is not structured to comply with certain provisions is ensuring non-compliance.

Recommendation for Finding 4

The City Manager and her Management Team should develop master contract language that is appropriate for the degree of risk, including contract amount, complexity, community issues, and liability. The current approved operation guidelines used are too broad and costly for most of the smaller sub-contractors used for this Program. This has resulted in non-compliance by vendors, and additional monitoring requirements for City staff.

DCI's Response dated June 23, 2003:

DCI concurs with the finding and recommendation.

DCI supports and will work with other City departments to formulate a master contract that would include uniform performance measures. DCI presented this recommendation to the City Council's Economic and Human Development Committee in May 2003. DCI will participate in updating the City's Operational Guidelines and General Provisions (OGGP).