02-501

CITY OF SAN ANTONIO

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SAN ANTONIO, TEXAS 78283-3966

March 19, 2003

Honorable Mayor and
Members of the City Council Governance Committee
City of San Antonio

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The Office of the City Internal Auditor has completed an audit of the long-term job-training program operated by Project QUEST, Inc. (Project QUEST) that was funded by the City of San Antonio (City) during the fiscal years ended September 30, 2001, and September 30, 2002. We performed our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

We identified findings and issues related to Project QUEST's compliance with its contracts with the City. Also, we made recommendations to assist City staff and the agency in taking appropriate actions to bring Project QUEST into compliance and to strengthen City monitoring activities. We identified areas where City contract processes, language, and monitoring should be streamlined for greater effectiveness and efficiencies. We have met with City management and the Directors of the Departments of Community Initiatives (DCI) and Housing and Community Development (HCD) to discuss the issues identified in the report and have gained their overall concurrence with our recommendations.

City departments have identified action steps that are detailed in the attached report. They should be contacting Project QUEST as soon as possible to initiate whatever action is necessary by the agency to respond to the audit issues.

We would like to acknowledge the Directors of the Departments of Community Initiatives and Housing and Community Development and their staffs, as well as the Executive Director of Project QUEST and her staff, for providing us with complete and timely information during this audit.

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City Internal Auditor

Cc: Dennis J. Campa, Director, Department of Community Initiatives
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OFFICE OF THE CITY INTERNAL AUDITOR

AUDIT OF PROJECT QUEST, INC.

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March 19, 2003

AUDIT OF PROJECT QUEST, INC.

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	1
INTRODUCTION	3
BACKGROUND	3
OBJECTIVES AND SCOPE	4
METHODOLOGY	5
RESULTS, RECOMMENDATIONS, AND RESPONSES	9
CONTRACT AND OPERATIONAL GUIDELINES & GENERAL PROVISIONS COMPLIANCE ISSUES	10
Political Activity	10
Audited Financial Statements	12
Performance Measures	12
Flex Benefits (Health Insurance)	15
Pension Contribution Forfeitures	18
Budget Adjustments	19
Fraud (less than $500)	20
General Education Diploma (GED) Eligibility Requirements	21
Internal Controls over Tools	22
Documentation to Support Contract Compliance	23
CONTRACTING IMPROVEMENTS	24
CONCLUSION	30

EXECUTIVE SUMMARY
AUDIT of PROJECT QUEST, INC.—FISCAL YEARS 2001 and 2002
March 18, 2003

We have completed an audit of the long-term job-training program operated by Project QUEST, Inc. (Project QUEST) that was funded by the City of San Antonio (City) during the fiscal years ended September 30, 2001, and September 30, 2002. The objectives of our audit of the agency were to:

- Determine whether it complied with provisions of its contracts with the City.
- Determine if significant performance measures were met and accurately reported to the City.
- Determine whether expenses incurred and reimbursed by the City were allowable and adequately supported.
- Evaluate the applicant selection process.
- Evaluate the participant monitoring process.
- Evaluate reasons for participant terminations.
- Evaluate the retention period for job training graduates.
- Determine whether supporting expenses (general and administrative costs) appeared reasonable and were adequately supported.

We identified ten areas where Project QUEST did not comply with certain provisions in its contracts with the City. Those areas, listed in order of significance, are:

- Political Activity,
- Audited Financial Statements,
- Performance Measures,
- Flex Benefit (Health Insurance),
- Pension Contribution Forfeitures,
- Budget Adjustments,
- Fraud (less than $500),
- General Education Diploma (GED) Eligibility Requirements,
- Internal Controls over Tools, and
- Documentation to Support Contract Compliance.

When significant issues were noted during our audit work, such as political activity, we immediately notified the Directors of the Departments of Community Initiatives and Housing and Community Development. Those departments took immediate and proper corrective action, contacting Project QUEST management who implemented the corrective actions.

We identified areas in the City's contracting process for Project QUEST and all agencies where contract processes, language, and monitoring could be streamlined to for greater effectiveness and efficiencies.

- Develop master contract documents (contract and Operational Guidelines and General Provisions) and update them annually. These documents should have consistent terms and conditions for the agency to comply with and for the City to monitor for compliance.

- These documents should clarify and simplify contract requirements and necessary documentation.

- The City's contracting process should be enhanced to ensure that contracts and attachments are signed (executed) before the beginning of the contract period.

- Performance measures outlined in the contract should be uniform and consistent to the extent possible so that decision makers can compare agency performance for a single agency from year to year and between agencies in a single year.

- One City department should be assigned responsibility for monitoring all funding an agency receives from the City to ensure an adequate monitoring process is maintained without duplication of effort. Consideration should be given to the segregation of this new monitoring function from operating activities.

Our report includes recommendations that should assist City Council and City management, including the Departments of Community Initiatives and Housing and Community Development, and Project QUEST in making improvements in these areas. We met with City management and the departments involved in January and February of 2003 to discuss the results of our audit. We presented the final draft of audit report to the City Manager's Office and the Directors of the Departments of Community Initiatives and Housing and Community Development at a meeting on March 12, 2003. Their responses are included in this audit report as indicated and we have provided appropriate comment on those responses as needed.

Additionally, staff from the Office of the City Internal Auditor and the Directors of the Departments of Community Initiatives and Housing and Community Development met with Project QUEST's Executive Director and a member of its Board of Directors on March 17, 2003, to ensure that they understood the issues identified in the audit and the corrective action that is required by the agency.

City departments have identified action steps that are detailed in our report and should contact Project QUEST as soon as possible to initiate whatever action is necessary by the agency to respond to the audit issues. We will follow-up with City staff at 30-day intervals on the status of corrective actions agreed to and not completed as of the date of this report until all recommendations have either been implemented or cleared.

Our audit was designed to provide reasonable but not absolute assurance that Project QUEST complied with its contract with the City. We applied sampling techniques and audit methodologies that meet generally accepted auditing standards; however, there could be instances of non-compliance with the contract that were not identified.

The Office of the City Internal Auditor has completed an audit of the long-term job-training program operated by Project QUEST, Inc. (Project QUEST) that was funded by the City of San Antonio (City) during the fiscal years ended September 30, 2001, and September 30, 2002. The funds the City provided to Project QUEST during this time period included City General Funds as well as federal funds passed through the City of San Antonio. We performed our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

We would like to acknowledge the Directors of the Departments of Community Initiatives and Housing and Community Development and their staffs, as well as the Executive Director of Project QUEST and her staff, for providing us with complete and timely information during this audit.

BACKGROUND

Project QUEST was incorporated as a Texas 501(c)(3) non-profit corporation on July 15, 1992. Its mission is to demonstrate the social and economic benefits that can be achieved through investments in long-term job training for those who otherwise would not have that opportunity. Project QUEST is a workforce development program intended for adults with a high school diploma or a general education diploma (GED). Participants in Project QUEST's job-training program must test at a level sufficient to enroll in college level courses before entering the program. Participants receive career counseling, support services (including transportation, child care, housing assistance, and utility assistance), job training, and pre-employment assistance designed to promote long-term success.

For the 11 fiscal years from 1992 through 2002, Project QUEST's total budget was $25,569,638. The $25,569,638 included City funds for Project QUEST totaling $15,856,707 of which $12,791,772 or 81 percent were General Fund dollars. The agency received the remaining $9,712,931 over those 11 years from foundations and agencies. In fiscal year 1992, the City provided $2,000,000 or 48 percent of Project QUEST's total funding. In fiscal year 2001, the City provided $3,628,639[1] or 94 percent of Project QUEST's total funding and, in fiscal year 2002, the City provided $3,583,386[2] or 95 percent of Project QUEST's total funding.

[1] For fiscal year 2001, the City funding provided to Project QUEST is based on actual amounts as reported in the City of San Antonio approved annual budget for fiscal year 2003.

[2] For fiscal year 2002, the City funding provided to Project QUEST is based on authorized amounts as reported in the City of San Antonio approved annual budget for fiscal year 2003.

The following table summarizes actual City funding to Project QUEST for fiscal year 2001 and authorized City funding to Project QUEST for fiscal year 2002.

Fiscal Year 2001 and 2002 Funding from the City to Project QUEST

Funding Source	Authorized Funding FY 2002[1]	Actual Funding FY 2001[1]	City Department Administering Grant Award
General Fund	$3,003,386	$2,832,257	Community Initiatives
HUD—Community Development Block Grant (CDBG)	$350,000	$350,000	Housing and Community Development
DOL—Youth Opportunities (YO!)	$150,000	$64,382	Community Initiatives—Youth Opportunity (YO!)
HUD—Supportive Housing Program (SHP)	$0	$300,000	Community Initiatives—Community Action Division
HHS (passed through **TDHCA**)—Community Services Block Grant (CSBG)	$80,000	$82,000	Community Initiatives—Community Action Division
Total	$3,583,386	$3,628,639	

[1] All amounts are taken from the City of San Antonio approved Annual Budget for fiscal year 2003.

DOL—U. S. Department of Labor
HUD—U. S. Department of Housing and Urban Development
HHS—U. S. Department of Health and Human Services
TDHCA—Texas Department of Housing and Community Affairs

The Department of Community Initiatives performed a program performance review of Project QUEST covering the period October 1, 2000, to May 31, 2001, with an exit conference date of June 22, 2001. DCI's review found Project QUEST to be within the acceptable accomplishment range for performance measurement activity and issued a report that rated Project QUEST's overall performance as acceptable. In early 2002, Internal Audit examined Project QUEST's audited financial statements and Single Audit reports for fiscal year 2001 and noted that Project QUEST's independent auditors did not report any findings.

OBJECTIVES AND SCOPE

The objectives of our audit were to:

- Determine whether Project QUEST complied with certain provisions of its contracts with the City, including significant provisions included in the City's Operational Guidelines and General Provisions (OGGP), which is included as an attachment to the contracts.

- Determine whether Project QUEST met significant performance measures required by its contracts during the audit period and whether those reported performance measures were accurate and supported by adequate documentation.

- Determine whether expenses incurred by Project QUEST and reimbursed by the City were allowable under Project QUEST's contracts with the City and whether supporting documentation was adequate.

- Evaluate Project QUEST's applicant selection process.

- Evaluate Project QUEST's participant monitoring process to determine whether participant files adequately documented participants' progress in the program.

- Evaluate reasons for participant terminations identified by Project QUEST.

- Evaluate the retention period of Project QUEST job training graduates.

- Determine whether Project QUEST's supporting expenses (general & administrative costs) reimbursed by the City appeared reasonable and whether supporting documentation was adequate.

Our audit covered the contract periods from October 1, 2000, through September 30, 2002, and included contracts related to City General Funds and federal funds passed through the City awarded to Project QUEST. For fiscal year 2001, we reviewed four contracts: General Fund/YO!, CDBG, CSBG, and SHP (abbreviations are described in the table on page 4 of this report). For fiscal year 2002, we reviewed two contracts: General Fund/YO! and CDBG. We performed our fieldwork at Project QUEST's offices at various times from February 12, 2002, through January 31, 2003. Additionally, we met with and received information necessary to perform our audit from the managements and staffs of DCI and HCD.

METHODOLOGY

Our methodology for specific areas of testing is discussed below. For each area of testing, we either tested 100 percent of the population (when populations sizes were small) or used computerized audit software to determine statistical sample sizes for larger population and made random selection of the sample using the same software.

CONTRACTS AND OGGP

We reviewed the contract and the City's OGGP for compliance issues relating to Project QUEST. Specifically, we reviewed the City's General Fund/YO! contract and CDBG contract and the attached OGGP for fiscal years 2001 and 2002 and the City's General Fund contract for fiscal year 2003.

PERFORMANCE MEASURES

To aid in obtaining an overview of the program for fiscal year ending 2001, we reviewed Project QUEST participant counselor notes. From 884 participants served, we selected a judgmental sample of 82 participants. Additionally, we selected statistical samples to test for specific requirements for fiscal years 2001 and 2002, which are discussed below.

Job Placements

We requested the participant folders for the sample selected. We reviewed the contents of the folders for job placement information. We compared each participant's job placement noted in the files and/or counselor notes with the lists of Project QUEST's job training opportunities dated November 12, 2001, and July 3, 2002, to determine if the participant was placed in a high wage demand occupation. We met with Project QUEST staff regarding any issues identified on an as needed basis.

We obtained a report from Project QUEST of all job placements for fiscal years 2001 and 2002.

- From 193 job placements from October 1, 2000, to September 30, 2001, we selected a statistical sample of 99 job placements for testing.

- From 178 job placements from October 1, 2001 to September 30, 2002, we selected a statistical sample of 95 job placements for testing.

Program Completions (Graduates)

We requested the participant folders for the sample selected. We requested and reviewed counselor notes for each participant to obtain additional information on graduation dates. We verified the graduation date with supporting documentation. We met with Project QUEST staff regarding any issues identified on an as needed basis.

We obtained a report from Project QUEST of all program completions for fiscal years 2001 and 2002.

- From 324 program completions, including remediation, from October 1, 2000, to September 30, 2001, we selected a statistical sample of 125 program completions for testing.

- From 176 program completions, not including remediation, from October 1, 2001, to September 30, 2002, we selected a statistical sample of 95 program completions for testing.

Remediation Graduates

We requested the participant folders for the sample selected. We requested and reviewed counselor notes for each participant to obtain additional information on graduation dates.

We verified the graduation date with supporting documentation. We met with Project QUEST staff regarding any issues identified on an as needed basis.

We obtained a report for graduates from remediation training for fiscal year 2002. For fiscal year 2001, remediation graduates were included with the program completion report and identified as remediation graduates.

- From 101 remediation graduates from October 1, 2001, to September 30, 2002, we selected a statistical sample of 68 remediation graduates.

Youth Opportunity (YO!) Program

We requested the participant folders and the counselor notes for each file. We verified completion dates included in the folder to substantiate the participant's completion from remedial or occupational training. We determined the number of job placements from the job placement report and verified placement wages by using the employer verified placement form. We requested and reviewed counselor notes to verify dates of completion. We met with Project QUEST staff regarding any issues identified on an as needed basis.

We obtained a report of all YO! program participants served for fiscal years 2001 and 2002.

- From October 1, 2000, to September 30, 2001, we reviewed 22 (100 percent) of program completions.

- From October 1, 2001, to September 30, 2002, we reviewed 12 (100 percent) of program completions.

Community Development Block Grants (CDBG) Program

We requested the participant folders for the sample selected. We obtained the CDBG low/moderate income adjusted for household size table for each year. We verified the calculation of income performed by Project QUEST intake staff and compared to the low/moderate income table. We met with Project QUEST staff regarding any issues identified on an as needed basis.

We obtained a report of all program participants served for fiscal years 2001 and 2002.

- From 784 CDBG eligible participants from October 1, 2000, to September 30, 2001, we selected a statistical sample of 162 CDBG eligible participants.

- From 617 CDBG eligible participants from October 1, 2001, to September 30, 2002, we selected a statistical sample of 153 CDBG eligible participants.

ALLOWABLE EXPENSES

We interviewed the Project QUEST chief accountant to determine procedures involved in the invoicing and reimbursement process. Project QUEST submitted approximately two invoices a month for reimbursements related to its contract with the City for the General Fund monies and one invoice per month for the other City funded contracts for fiscal year 2001 and 2002. We reviewed four invoices submitted for General Fund reimbursement for fiscal year 2001 and four invoices for fiscal year 2002. For the other lesser funding sources, CDBG, CSBG, SHP and YO!, we selected two invoices from each year for each funding source to review. We reviewed the invoices and the supporting documentation for allowable expenses. We met with Project QUEST staff regarding any issues identified on an as needed basis.

APPLICANT SELECTION PROCESS

We attended a Project QUEST new applicant orientation and a recruitment fair and reviewed all applicant, intake, and certification documents. We obtained and reviewed a listing of recruitment fair sites. We also interviewed staff involved with the certification and recruitment process. We obtained and reviewed a listing of participants served by council district.

PARTICIPANT MONITORING

We requested the participant folders and the counselor notes for the sample items selected. We reviewed attendance forms to substantiate Project QUEST's monitoring of the participant's progress. We reviewed counselor notes for each participant to verify monitoring of the participant. We compared each participant's career track noted in the files and/or counselor notes with a list of Project QUEST's job training opportunities dated November 12, 2001, and July 3, 2002, to determine if the participants enrolled in a high wage demand occupation. We met with Project QUEST staff regarding any issues identified on an as needed basis.

We obtained a report from Project QUEST of all participants served for fiscal years 2001 and 2002.

- From 848 participants served from October 1, 2000, to September 30, 2001, we selected a statistical sample of 164 participants to be tested.

- From 664 participants served from October 1, 2001, to September 30, 2002, we selected a statistical sample of 156 participants to be tested.

PARTICIPANT TERMINATIONS

We requested a listing of participant terminations. These are participants who did not complete the program and were not placed in a job. From a list of 110 names provided to us for fiscal year 2001, we selected 20 names at random for testing. We requested the participant folders for the sample selected.

We reviewed the contents of the folders, which included, the completed application, eligibility data, Project QUEST evaluation of participant form, and other documents. We requested and reviewed counselor notes for each participant to ascertain the reason for termination. We met with Project QUEST staff regarding any issues identified on an as needed basis. We did no additional testing or review in this area for fiscal year ending 2002.

JOB RETENTION

We requested a listing of all job placements for the period from October 1, 2000, to September 30, 2001, from Project QUEST. From the computer-generated list of 193 placements provided, we selected 30 names at random for testing. We requested the participant folders for the sample selected. We reviewed the job retention information maintained in the participant's folder, which consisted of an employer signed document stating hourly wage earned at placement and at 30, 60, and 90 days from placement. We met with Project QUEST staff regarding any issues identified on an as needed basis.

SUPPORTING EXPENSES (GENERAL & ADMINISTRATIVE COSTS)

We compared Project QUEST salaries with salaries of comparable positions in the City. We reviewed staffing levels and observed operations of a representative group of staff to determine if staffing levels are reasonable. We obtained counselor weekly schedules to review work load levels.

RESULTS

Based on our audit work, we identified findings and issues related to the contract and Operational Guidelines and General Procedures (OGGP) compliance and contract language and made recommendations that should assist DCI, HCD and Project QUEST management in making improvements in these areas. For the audit objective related to justification for Project QUEST terminating participants, we found that participant terminations were adequately explained and documented.

Throughout the course of our audit work, we met with Project QUEST's Executive Director and her management staff to address issues identified during the audit. In addition, City management, DCI, and HCD were given written preliminary findings in January 2003 and in February 2003. Final results of our audit work were presented to the City Manager's Office, DCI, and HCD in a draft report dated March 12, 2003, providing those parties with the opportunity to study and comment on our findings and recommendations. Additionally, staff from the Office of the City Internal Auditor and the Director of DCI met with Project QUEST's Executive Director and a member of its Board of Directors on March 17, 2003, to ensure the agency's understanding of the issues identified in the audit and the corrective action required. Their responses have been included in this audit report as indicated and we have provided appropriate comment on those responses as needed.

CONTRACT AND OPERATIONAL GUIDELINES AND GENERAL PROCEDURES (OGGP) COMPLIANCE ISSUES

Finding 1: ***We identified ten areas where Project QUEST was not in compliance with certain provisions in its contract with the City and the attached OGGP. Those areas, listed in order of significance, are:***

- ***Political Activity (Section 22—General Fund (GF) contract and Section 24—CDBG contract),***
- ***Timely Submission of Audited Financial Statements (Section 8—GF contract),***
- ***Performance Measures (Performance Impact Plan (PIP)—GF contract),***
- ***Diversion of Flex Benefit (Health Insurance) Funds to Deferred Compensation, Annuities, and Employee Compensation (Sections 4 and 5F—OGGP and Sections 6B and 6D—GF contract),***
- ***Pension Contribution Forfeitures (Section 21C—OGGP),***
- ***Budget Adjustments (Section 16—OGGP),***
- ***Fraud–Less than $500 (Section 8—OGGP),***
- ***GED Eligibility Requirements (Performance Impact Plan (PIP)—GF contract),***
- ***Internal Controls over Tools (Section 5C—OGGP), and***
- ***Documentation to Support Contract Compliance (Section 7I—OGGP).***

ISSUE 1: POLITICAL ACTIVITY

Section 22 of Project QUEST's General Fund/YO! contract with the City states that "The Contractor agrees that neither the program nor the funds provided, nor the personnel employed in the administration of the program shall be in any way or in any extent engaged in the conduct of political activities."

Section 24 of Project QUEST's CDBG contract with the City states that "None of the performance rendered under the contract shall involve, and no portion of the funds received under the contract shall be used, either directly or indirectly, for any political activity including, but not limited to, an activity to further the election or defeat of any candidate for public office or for any activity undertaken to influence the passage, defeat or final content of local, state or federal legislation."

On February 13, 2002, during a Project QUEST orientation for new applicants, we observed a Project QUEST employee advocate for passage of the Better Jobs Initiative. The Better Jobs Initiative was a proposed initiative established by the Better Jobs Act. Possible programs included under this Act are job training, early childhood development, after-school programs, funding for accredited post secondary education institutions, and promotion of literacy. The initiative was proposed to be on the ballot as early as May 2002; however, to date it has not been placed before the voters. Also, the applicants were asked to sign a document that would support passage of the Better Jobs Initiative. Project QUEST staff informed us that this document was delivered to COPS/Metro Alliance by the Project QUEST recruiter.

ISSUE 2: POLITICAL ACTIVITY

Counselor notes indicated participants were invited to attend COPS/Metro Alliance accountability sessions. These sessions are generally attended by elected officials and candidates for public office and appear to be primarily for political purposes. Encouraging participants to attend sessions that could be considered political may give participants the impression they need to support a community or activist group to obtain City funded long-term job training or supportive services.

Recommendation for Issues 1 and 2:

Due to the significance of these issues, we verbally communicated this information in late February 2002 to HCD management for follow-up. We recommend DCI and HCD management ensure that Project QUEST continues to comply with the political activity provisions of its contracts with the City.

DCI's and HCD's Response:

DCI and HCD concur with the finding and the recommendation.

On March 15, 2002, the City of San Antonio's Housing and Community Development Department (HCD) informed Project QUEST in writing of the contract violation stated in the CDBG contract. The letter stated that Project QUEST was to immediately cease involvement in political activities and also requested a written response from Project QUEST by March 22, 2002.

DCI also contacted Project QUEST, Inc. and instructed them to immediately desist from activities that are not in compliance with the political activity provisions of its contracts with the City.

On March 18, 2002, Project QUEST replied and stated that effective immediately, Project QUEST staff will cease to inform and disseminate material related to Better Jobs to applicants during orientation. Furthermore, all staff has been reminded of its policies against engaging in political activities during work hours.

DCI and HCD will continue to follow up on this issue.

Audit Follow-up:

Subsequent to the corrective action taken by Project QUEST on March 18, 2002, audit staff attended two other orientations (unannounced) and observed that no political activity was taking place.

ISSUE 3: TIMELY SUBMISSION OF AUDITED FINANCIAL STATEMENTS

Section 8 of Project QUEST's General Fund/YO! contract with the City states that, "If contractor expends $50,000 or more of City dollars during the term of this contract, the contractor shall furnish the Department of Community Initiatives with an audit, as described in the City's Operational Guidelines and General Procedures (OGGP) conducted by an outside independent auditor, within 120 days of the close of the accounting period or termination of this contract."

Project QUEST's audited financial statements for fiscal year 2001 were dated December 15, 2001 (less than 90 days after the end of the fiscal year). Project QUEST's audited financial statements for fiscal year 2002 have not been completed and should have been completed by January 30, 2003.

Recommendation 3:

Since Project QUEST receives significantly more General Fund dollars than other agencies, DCI management should require that Project QUEST submit audited financial statements within 120 days after its fiscal year end as required by the OGGP.

DCI's Response:

DCI concurs with the finding and recommendation:

Project QUEST's fiscal year 2002 audit report of financial statements is pending their Board review and approval, which should occur on March 27, 2003. Project QUEST's Executive Director informed DCI that the audit contains an unqualified opinion with no reportable issues. DCI has instructed Project QUEST to provide the financial audit report to Office of the City Internal Auditor by March 30, 2003.

ISSUE 4: PERFORMANCE MEASURES

We verified whether Project QUEST met certain performance measures for fiscal years 2001 and 2002 related to Project QUEST's CDBG and General Fund/YO! contracts with the City.

- For the CDBG contract, we tested 162 of 784 CDBG funded participants for fiscal year 2001 and 153 of 617 CDBG funded participants for fiscal year 2002 to determine whether those participants met CDBG eligibility requirements. No exceptions were noted.

- We did not verify performance measures reports for Supportive Housing Program (SHP) or Community Service Block Grant (CSBG) contracts because the City did not provide funding for both years audited and the General Fund/YO! contract represented 90 percent and 79 percent of the City's funding to Project QUEST for 2002 and 2001, respectively.

- The City of San Antonio's approved Annual Budget for fiscal year 2003 includes the performance measures required by Project QUEST for the General Fund/YO! contract

with the City. For fiscal year 2001, results are reported for ten performance measures. Project QUEST met or exceeded five of the ten performance measures. For fiscal year 2002, results are reported for 12 performance measures. Project QUEST met or exceeded seven of the 12 performance measures.

The following table summarizes Project QUEST's results based on the General Fund/YO! contract performance measures for fiscal years 2001 and 2002.

Contract Performance Measures (CPM) for Fiscal Years (FY) 2001 and 2002

Performance Measure	Contracted FY 2001[1]	Reported FY2001[1]	Project QUEST Reports FY 2001[2]	Contracted FY 2002[1]	Reported 9 month FY 2002[1]	Project QUEST Reports 12 month FY 2002[2]	CPM met FY 2001	CPM met FY 2002
Input:								
No. of Staff	37	38	46	39	38	33	No	Yes
No. of Unduplicated Clients	843	863	848	912	606	664[3]	Yes	No
No. Of Unduplicated YO! Clients	50	27	28	21[5]	24	24	No	Yes
Output:								
No. of Job Placements	180	151	193	191	94	178	Yes	No
No. of YO! Job Placements	2	1	1	3	1	3	No	Yes
No. of Program Completions	255	294	323	280[4]	85	275[4]	Yes	No
No. of YO! Program Completions	30	9	22	8[5]	12	12	No	Yes
Salary Wage	$9.25	$11.46	$11.25	$10.00	$12.96	$14.05	Yes	Yes
YO! Salary Wage	$8.50	$10.98	$10.98	$8.50	$12.00	$11.95	Yes	Yes
Efficiency:								
Annual Cost per Client	$2,490	$2,432	$3,011[6]	$3,293	$3,500	$4,521[6]	No	No
Effectiveness:								
% Placements Earning Above $10 per Hour	N/A	N/A	N/A	80%	85%	77%	N/A	No
% Enrolled in Demand/High Wage Occupations	N/A	N/A	N/A	85%	90%	98%	N/A	Yes

[1] Amounts are taken from the Approved Annual Budget for the City of San Antonio for fiscal year 2003.

[2] Information is based on reports provided by Project QUEST during the audit. We did not verify this information in its entirety.

[3] During 2002, DCI directed Project QUEST to use $454,963 of its General Fund Allocation for childcare. Assuming an average cost per unduplicated client of $3,293 (budgeted performance measure), the $454,963 spend on childcare could have been used to serve 138 additional participants. Based on this assumption, Project QUEST could have served 802 unduplicated clients (664 actual plus 138 additional) for fiscal year 2002, which is still less than the goal of 912.

[4] For fiscal year 2001, the number of program completions included participants that completed remedial training. In order to compare fiscal year 2002 results to fiscal year 2001 results, we included participants that completed remedial training in this performance measure.

[5] DCI amended the YO! contract for fiscal year 2002 on June 27, 2002, ending funding on June 30, 2002, and amended the number of unduplicated clients to 21 and the number of YO! completions to 8.

[6] Calculated as total General Fund expenditures divided by the number of unduplicated clients for each year. For fiscal year 2002, DCI directed Project QUEST to spend $454,963 of its General Fund allocation for childcare for participants. Recalculating the annual cost per client for 2002 after decreasing the General Fund amount by $454,963 for childcare, the cost per participant is$3,838, which is still more than the contract goal. **For comparison, total funding for all sources divided by the number of unduplicated clients was $4,134 for fiscal year 2001 and $4,893 for fiscal year 2002. For 2002, total costs were decreased for $454,963 in childcare costs paid with General Fund dollars. (See table on page 26 of this report).**

Annual cost per unduplicated client based on total funding, as shown in Note 5 above and detailed in the table on page 26 of this report, from all of Project QUEST's funding sources were $4,134 for 848 unduplicated clients in fiscal year 2001 and $4,893 for 664 unduplicated clients in fiscal year 2002.

For part of fiscal year 2002, DCI directed Project QUEST to pay for childcare expenses for participants using General Fund dollars. Project QUEST paid $454,963 for childcare expenses for fiscal year 2002 that had been paid previously from a federally funded City program that is not administered by Project QUEST. In calculating the total cost per participant of $4,893 for fiscal year 2002, we decreased the total costs per Project QUEST's draft audited financial statements by the $454,963 additional childcare costs paid in 2002, allowing for comparison of fiscal year 2001 to fiscal year 2002.

Assuming an average cost per unduplicated client of $3,293 (budget performance measure), the $454,963 spend on childcare could have been used to serve about 138 additional participants. Based on this assumption, Project QUEST could have served 802 unduplicated clients (664 actual plus 138 additional) for fiscal year 2002, which is still less than the goal of 912.

DCI management states that its intent was to adjust Project QUEST's performance measures for fiscal year 2002 based on the need to use General Fund dollars to pay for childcare. However, DCI never formalized that intent in writing as a contract amendment. In reporting Project QUEST's 2002 performance measures in the City's fiscal year 2003 Approved Annual Budget, DCI did not disclose these facts. DCI presented information of Project QUEST's performance to the City Council quarterly; however, the information presented to the City Council did not reflect the impact that using General Fund dollars to pay for childcare had on the agency's performance measures such as the number of unduplicated clients or the annual cost per participant.

The General Fund pays for all of Project QUEST's supporting services (general and administrative costs). Project QUEST's annual cost per unduplicated client appears to be increasing because supporting services (general and administrative costs) have not been adjusted to reflect changes due to decreases in client base and monies received from other funding sources. After adjusting for childcare expenses paid for fiscal year 2002, the remaining increase in cost per unduplicated client appears to reflect increased general and administrative costs per client, since the actual number of clients served in fiscal year 2002 decreased from fiscal year 2001.

Project QUEST reported its performance measures to DCI monthly. DCI has been communicating with Project QUEST verbally about performance measure deficiencies.

Recommendation 4:

DCI management should communicate in writing with Project QUEST monthly regarding performance measures that are not being met. In addition, Project QUEST should be required to respond in writing with action steps it will take to ensure compliance with performance measure requirements of the contract. DCI should strengthen its contract with Project QUEST by identifying progressive consequences for not meeting performance measures.

Additionally, because Project QUEST is the agency that receives the largest amount of General Funds, DCI should continue to provide performance measure and budget evaluation information to the City Manager and City Council so that it can be used as a tool when making funding decisions.

DCI's Response:

DCI concurs with the finding and recommendation.

DCI continually monitors performance measures and requires a corrective action plan when measures show significant variances (over or under). In fiscal year 2002, DCI instructed Project QUEST to pay childcare expenses from their budgeted funds. As a result, Project QUEST served 664 clients or 73 percent of their contracted measure and their annual cost per client was correspondingly higher. Both measures appear to be out of compliance, but funding circumstances beyond Project QUEST's control and known to DCI impacted these two contracted measures. Also, DCI coordinated with Project QUEST a reduced enrollment in August 2002 (FY 2002) based on a projected contract reduction for FY 2003. In addition, it was anticipated that Project QUEST would again have to use general funds to support childcare in FY 2003. The combination of these two factors contributed measurably to Project QUEST's reduced enrollments at the conclusion of FY 2002.

DCI reported Project QUEST's performance measures to City Council quarterly and during the budget process. DCI should have amended Project QUEST's performance measures given the shift of funds to support childcare and the reduced enrollment instituted in August 2002.

When performance measures are not met, DCI will require a corrective action plan from Project QUEST and consequences for not attaining these measures will be covered with Project QUEST management.

ISSUE 5: DIVERSION OF FLEX BENEFIT (HEALTH INSURANCE) FUNDS TO DEFERRED COMPENSATION, ANNUITIES, AND EMPLOYEE COMPENSATION

Section 4, subsection A, of the OGGP titled Financial Plan/Program Budget states in part that "The City may at it's option, restrict revisions to the financial plan/program budget and under no circumstances will revisions to the plan/budget be allowed if such revision, or any part there of, causes the award, agreement, and/or contract to be used for purposes other than those intended."

Section 5, subsection F, of the OGGP titled Accounting System states that "contractors shall maintain financial management systems which provide for procedures for determining the reasonableness, allowability, and allocability of costs in accordance with the provisions with any and all applicable cost principles, City guidelines, and the terms of the award, grant, contract, or agreement with the City."

Section 6, subsection B, of Project QUEST's General Fund/YO! contract with the City states that "all requests for reimbursement shall be accompanied with documentation as may be required by the City's Department of Community Initiatives."

agency's flex benefit plan documents and its personnel policies apparently has not been noted during reviews of the program by City staff, Project QUEST, or the agency's auditors.

Recommendation 5:

DCI management should require Project QUEST to stop this practice immediately and refund the $103,376.60 plus interest, as well as any other funds diverted to the deferred compensation and annuity trustee plans since the end of our audit period, which was September 30, 2002, to the City. DCI should also require that Project QUEST obtain legal counsel to determine whether Project QUEST's benefit plans and the manner in which contributions to those plans were dealt with are in compliance with federal and state laws and regulations. Going forward, DCI management should verify that Project QUEST's flex benefit and pension plans comply with contract requirements and approve/disapprove those plans and any amendments in writing.

Project QUEST's Comment:

Project QUEST's Executive Director states that Project QUEST's personnel policies, which allow for the diversion of employees flexible benefits dollars from health insurance to pension funds gave them the flexibility to do this.

Auditors' Comment on Project QUEST's Comment:

Project QUEST's contract with the City is the prevailing document on this issue, not Project QUEST's internal policies. Additionally, we have reviewed the official plan document for Project QUEST's flexible benefits plan. The document does not allow employees to use flexible benefit dollars to make contributions to deferred compensation or annuity plans.

DCI's Response:

DCI concurs with the finding and recommendation.

Project QUEST's health flex-benefits are a budgeted line item in their contract that allows flexible options to covered employees. One of the flex options was to place the benefit dollars into an annuity plan. Project QUEST placed these flex dollars into a qualified 457 plan that should reflect only employee contributions. When the error was found, a new unqualified plan that allows employer provided contributions was established. The flex dollars placed in the qualified plan remain in that fund.

Project QUEST made line item adjustments to transfer earned hospitalization flex-benefit dollars ($78,547) to their employees' annuity accounts. During the transition period between annuity plans, Project QUEST also made cash payments ($9,589) to employees for their earned flex-benefit dollars. Project QUEST provided documentation to show cash payments made to employees were subject to standard payroll deductions. Since the flex-benefit program is in the Project QUEST budget and their total fringe benefits including health benefits are at a lower rate than the City of San Antonio, DCI would have approved these actions to compensate employees for their earned benefits. We will advise Project QUEST in writing that all future distributions of health flex-benefit dollars must be in accordance with their benefits plan,

approved by their board, detailed and footnoted in their submitted budget and in any budget revisions

In conclusion, DCI will work with the Office of the City Internal Auditor and Project QUEST to determine a reimbursement amount. Based on this assessment, DCI will negotiate a repayment plan. This action will be completed within 90 days (June 19, 2003).

ISSUE 6: PENSION CONTRIBUTION FORFEITURES

Section 21, subsection C, of the OGGP titled Pension Plans states that, "Upon termination of a participating employee all contributions made to the pension fund, less reasonable administrative costs, not refunded to the terminated employee will be returned to the City."

Project QUEST's pension plan document states that pension contribution forfeitures for terminated non-vested employees be allocated to the remaining non-terminated employees pension accounts at year-end instead of being returned to the City. Project QUEST's policy is in conflict with the City policy stated above.

The table below depicts the amounts of forfeitures that have been allocated to the remaining employees since program inception. The amount of deferred forfeitures are the amounts that have not been allocated.

Pension Contribution Forfeitures Allocated to Other Employees				
Period:0 Oct. 1 – Sept. 30[1]	**Amount of Forfeitures**	**Amount of Deferred Forfeitures**	**Total**	**Number of Employees**
1993	$1,211.72	$0	$1,211.72	2
1994	$4,864.48	$0	$4,864.48	8
1995	$1,512.48	$0	$1,512.48	2
1996	$0	$0	$0	0
1997	$3.82	$0	$3.82	1
1998	$1,543.34	$0	$1,543.34	7
1999	$0	$0	$0	0
2000	$0	$0	$0	0
2001	$0	$16,435.08	$16,435.08	10
2002	$0	$9,885.83	$9,885.83	6
Total	**$9,135.84**	**$26,320.91**	**$35,456.75**	

[1] Information source—Project QUEST records.

At the time of our audit, DCI staff was not aware of the policies and provisions in Project QUEST's pension plan documents. The conflict between the City's contract and the agency's pension plan documents apparently has not been noted by reviews of the program by City staff, Project QUEST, or its auditors.

Recommendation 6:

DCI management should instruct Project QUEST to stop this practice immediately and refund the $35,456.75 plus interest, as well as any other forfeited pension contribution funds since the end of our audit period, which was September 30, 2002, to the City.

DCI's Response:

DCI concurs with finding and recommendation.

Project QUEST's pension provider has informed them that qualified plans are prohibited from reverting any plan assets back to the employer. Project QUEST provided records that showed forfeiture redistributions to their remaining non-terminated employees occurred between 1993 and 1999 and totaled to $8,621.08. Additionally, there are deferred forfeitures totaling to $26,321 that have not been distributed. The pension provider told Project QUEST that their pension plan could be amended so that any future forfeitures can be used to reduce the employer's contribution. DCI will require Project QUEST to submit an amended plan for approval within 90 days (June 19, 2003).

ISSUE 7: BUDGET ADJUSTMENTS

Section 16 of the OGGP titled Budget Flexibility states that "No deviation from the budget may be undertaken by the contractor without the written approval of the responsible department. To obtain City approval, the agency must submit a written request stating the proposed changes and justification. The total expenditure of funds must not exceed the amount authorized by the City to conduct project activities."

Project QUEST submitted at least eight requests for budget revisions for fiscal year 2001 totaling $340,690 and at least two requests for budget revisions for fiscal year 2002 totaling $479,185. This represents 64 transfers between budgeted line items ranging from $83 to $78,000 for fiscal year 2001 and 27 transfers between budgeted line items ranging from $355 to $157,231 for fiscal year 2002. Our review of these requests for budget revisions showed that the primary justification that Project QUEST gave for requesting those budget adjustments was to bring budget amounts in line with actual expenditures. We do not consider this adequate justification.

The City's budget policies preclude departments transferring funds between personnel costs and other budgeted line items. Agencies should follow budget guidelines used by the City.

- In fiscal year 2001, DCI approved two Project QUEST budget transfers (both after the end of the fiscal year) from personnel to other cost categories. One revision decreased personnel costs by $67,310 and the other decreased personnel costs by $976.

- In fiscal year 2002, DCI approved two Project QUEST budget transfers from personnel to other cost categories. One revision decreased personnel costs by $128,143 and the other decreased personnel costs by $19,663.

In addition, Section 15 of the OGGP restricts the stockpiling of supplies during the last three months of the contract without written consent from the responsible department. The two budget revisions for fiscal year 2001 discussed above appeared to transfer funds from personnel to commodities.

Recommendation 7:

DCI management should require that Project QUEST provide specific justification for budget adjustments. Such justification should relate the need for additional funding in one budget line item to participant enrollment, increases in tuition, etc., and Project QUEST should provide documentation to support the need for additional funding in that budget line item. In addition, DCI management should require that Project QUEST as well as other agencies follow the City's budget guidelines that do not allow the transfer of funds from personnel costs. DCI should also ensure that Project QUEST does not move funds from other budget categories to commodities in the last three months of the contract period and should carefully evaluate the need for budget revisions after the end of the fiscal year.

DCI's Response:

DCI concurs with the finding and recommendation.

All Project QUEST budget adjustments were approved in fiscal years 2001 and 2002. Project QUEST will be advised to provide additional details to support future adjustments. This action will be completed by March 30, 2003.

ISSUE 8: FRAUD

Section 8 of the OGGP titled Internal Management states that "Contractor shall establish and use internal program management procedures to preclude theft, embezzlement, improper inducement, obstruction of investigation or other criminal action, and to prevent frauds and program abuse."

Project QUEST gave one participant a check in October 2000 for $325 (made out to the participant's landlord) for rental assistance. In November 2000, the participant admitted to Project QUEST that he had forged the landlord's signature and cashed the check at his credit union, keeping the funds for his own use. Project QUEST attempted to recover the funds from the participant, but was unsuccessful. The payee did not sign an affidavit of forgery, which would have allowed Project QUEST to recover the funds from the bank of first deposit (the participant's credit union). Project QUEST terminated the participant from the training program, but did not notify the City about the forgery or the related events.

Recommendation 8:

DCI management should require that Project QUEST immediately refund the City $325 plus interest.

DCI's Response:

DCI concurs with the finding and recommendations.

DCI will review Project QUEST's existing internal control procedures related to rental assistance. DCI will also determine whether there is an internal control issue related to issuing checks, and if so, will ensure that Project QUEST appropriately addresses that control issue. Based on this review, DCI will instruct Project QUEST to make the requisite improvements. DCI will instruct Project QUEST to return the disallowed amount to the City. This action will be completed by April 15, 2003.

DCI will instruct Project QUEST to notify the City, immediately, if fraud is suspected so that proper action may be taken. This action will be completed by March 30, 2003.

ISSUE 9: GED ELIGIBILITY REQUIREMENTS

The definition section of the performance impact plan (PIP), which is part of the General Fund/YO! contract, states, in part, that "Project QUEST participants are individuals who have a high school diploma or GED."

Two of the 82 participant files we reviewed for fiscal year 2001 indicated that Project QUEST enrolled these two participants in job training programs without having a high school diploma or GED as required by the PIP.

Recommendation 9:

DCI management should ensure that Project QUEST complies with the General Fund/YO! contract requirement that participants have a high school diploma or GED before entering Project QUEST long-term job training program.

DCI's Response:

DCI concurs with finding and recommendation.

Participants funded by the City's General Fund are required to have a high school diploma or a GED. The two participants in the above finding entered Project QUEST under a Texas Workforce Commission program that did not require a high school diploma or GED. However, general funds were used to pay for supportive services for these two students. DCI will require that Project QUEST seek approval before using general funds to cover any supportive services costs for those participants enrolled in programs not sponsored by the General Fund contract. This action will be completed by March 30, 2003.

ISSUE 10: INTERNAL CONTROLS OVER TOOLS

Section 5, subsection C, of the OGGP titled Accounting System states that "Contractors shall maintain financial management systems that provide for effective control over and accountability for all funds, property, and other assets. The contractor shall adequately safeguard all such assets and shall assure that they are used solely for authorized purposes."

Project QUEST operates certain training programs that require the use of mechanic tools. Project QUEST purchases the tools and provides the tools to the participants for use during on the job training. Upon successful completion of training and job placement, the participant is allowed to keep the tools for work purposes.

Project QUEST's inventory controls over tools provided to participants did not include procedures that fixed accountability for tools in a manner to ensure that participants received and used the tools for the purpose intended. Project QUEST participants are required to sign a statement stating that in the event the participant leaves the program they must return the tools to Project QUEST; however, a detailed inventory of the tools the participants were assigned is not required. In 2001 approximately 110 participants terminated their training programs; but, since Project QUEST did not keep inventory records, we could not determine how many terminated participants had been issued tools that should have been returned or the value of those tools.

Recommendation 10:

DCI management should instruct Project QUEST to implement an internal control system to inventory and account for tools purchased by Project QUEST and subsequently transferred to the participant. In addition, Project QUEST should ensure that tools are returned when a participant is terminated from the program.

DCI's Response:

DCI concurs with the finding and recommendation.

DCI will instruct Project QUEST to strengthen their internal control procedures regarding the purchasing of tools and the return of tools for those individuals who unsuccessfully exit the program.

The purchase of tools with City funds is an allowable expenditure and an important component of the program for participants who use tools as part of their training. Participants who successfully complete the training program may also keep their tools. Although Project QUEST requires participants to sign a statement that tools must be returned if the participant leaves the program, controls over the process would be improved if a detailed list of tools and the value of each tools were included as part of the accountability process.

The above actions will be completed by April 15, 2003.

HCD's Response:

The recommendation to implement an internal control system to inventory and account for tools purchased by the agency has no application to the CDBG contract. While the purchase of tools with CDBG funds is an allowable HUD expenditure, it is allowed only in limited circumstances. The eligibility requirements that would have to be met are very stringent. Therefore, the City's CDBG contract with the agency does not and has never allowed the purchase of tools as a budgeted item. CDBG funds support participant tuition costs. In past years, CDBG funds provided for child care services for the children of the project participants. CDBG funds have never been used to purchase tools for this program. Additionally, there is no language in our contract and its special condition provisions that would allow those expenditures to occur.

ISSUE 11: DOCUMENTATION TO SUPPORT CONTRACT COMPLIANCE

Section 7, subsection I, of the OGGP titled Audits states, in part, that "Contractor's books, records, documents, and all other evidence directly pertinent to its performance under this Contract, including such books, records, documents, and evidence used in accounting for revenues earned and expenses incurred under this Contract shall meet and be maintained by the Contractor in accordance with generally accepted accounting principles and with the standards detailed within the OGGP."

Participant placement wage (which is a performance measure under the General Fund/YO! contract) recorded by Project QUEST for four of 82 participant files we reviewed for fiscal year 2001 was not supported by documentation received by the employer, an independent third party source. Adequate documentation to support this performance measurement would be written documentation obtained from the employer.

The issue of adequate documentation is also mentioned in Issue 7 of this finding regarding budget adjustments.

Recommendation 11:

DCI management should require that Project QUEST keep any and all documentation to support all contract issues and requirements. While we only found the examples discussed above, there may be more instances when Project QUEST has not maintained adequate supporting documentation that were not identified during our testing.

DCI's Response:

DCI concurs with the finding and recommendation.

DCI has conferred with the Alamo Workforce Development, Inc., and requested assistance in verifying the hourly wage of Project QUEST graduates, on an annual basis. After consultation with the Texas Workforce Commission, AWD agreed to facilitate DCI receiving the hourly wage verification. DCI has submitted the Project QUEST graduate database to AWD and anticipates a response within the next 60 days (May 19, 2003).

CONTRACTING IMPROVEMENTS

Finding 2: ***We identified areas where contract processes, language, and monitoring could be streamlined to create greater efficiencies and effectiveness.***

Contract Processes:

- ***For Project QUEST and all agencies that receive funding from the City, significant efficiencies and effectiveness could be realized if a master contract and an updated OGGP were created that includes all funding an agency receives from the City, and that has consistent terms and conditions for the agency to comply.***

- ***The contracting process for Project QUEST and all agencies that receive funding from the City should begin soon enough to allow contracts to be signed (executed) before the beginning of the contract period.***

Contract Language:

- ***Contract and OGGP language should be clarified and simplified so that Project QUEST and other agencies understand contract requirements and necessary documentation.***

- ***Performance measures should be developed as part of a master contract that are uniform and consistent in order to compare agency performance to other delegate agencies and to compare a single agency's performance from year to year.***

Contract Monitoring:

- ***One City department should be assigned responsibility for monitoring all funding an agency receives from the City to ensure an adequate monitoring process is maintained without duplication of effort.***

We discussed with City management, including the Directors of DCI and HCD, the issues of:

- Streamlining contract processes,
- Developing clear and consistent contract language (including developing consistent performance measures between agencies and from year to year), and
- Consolidating the contract monitoring function into one City department for all funding an agency receives from the City.

Contract Processes:

City management indicated their willingness to work together across departments to determine what steps to take to implement these recommendations, including whether some, if not all, of these recommendations could be implemented during the fiscal year 2004 budget process.

We noted other specific examples where contracting improvements could be made. The details of those examples are discussed in the following narrative.

DCI's Response:

DCI supports and is willing to commit resources to work with other City departments to formulate a master contract that would include uniform performance measures. DCI would also provide resources to participate in updating the City's OGGP. DCI supports one department performing the monitoring of the agency's funding and performance with the costs shared by the participating departments.

ISSUE 1: CONTRACT EXECUTION

We noted that for fiscal years 2001, 2002, and 2003 the General Fund/YO! contract was executed after the contract start date. The CDBG contract for each year was executed on the first day of the contract period.

Summary of Project QUEST General Fund / YO! and CDBG Contract Executions			
Contract	**Date Executed**		
	FY 2001	**FY 2002**	**FY 2003**
General Fund / YO!	November 8, 2000	November 30, 2001	December 6, 2002
CDBG	October 1, 2000	October 1, 2001	October 1, 2002

Recommendation 1:

DCI management (and other City departments) should begin the contracting process early enough to ensure that contracts are executed prior to the contract start date. The City puts itself at financial risk if a contract year begins without an executed contract.

DCI's Response:

DCI concurs with the recommendation. DCI's intent is to have contracts executed prior to the contract start date.

Contract Language:

ISSUE 2: PERFORMANCE MEASURES

One significant performance measure that Project QUEST did not meet in either 2001 or 2002 was the cost of delivering services per unduplicated client. Additionally, the calculation used to report this performance measure is the cost of delivering services per unduplicated client based on General Fund dollars only.

A more accurate measure of Project QUEST's efficiency would be to measure the cost of delivering services per unduplicated client based on all funding sources, particularly since the City's General Fund pays for a disproportionate amount of Project QUEST's supporting expenses (general and administrative expenses) as detailed in the following table.

Program and Support Expenses based on Project QUEST's Audited Financial Statements[2]

Year	Total Expenses	Program Expenses (Job Training)	Supporting Expenses (General & Administrative)	Program Expenses as a Percent of Total Expenses	Supporting Expenses as a Percent of Total Expenses	Number of Unduplicated Clients	Total Cost per Unduplicated Client
1999	$1,707,342	$1,375,625	$331,717	81%	19%	587[3]	$2,909
2000[1]	$2,990,132	$2,403,641	$586,491	80%	20%	647[3]	$4,622
2001	$3,505,896	$3,017,886	$488,010	86%	14%	848[4]	$4,134
2002[2]	$3,249,170	$2,686,315	$562,855	83%	17%	664[4]	$4,893

[1] For 2000, the audit period was the 15 months from July 1, 1999, through September 30, 2000, due to Project QUEST changing its fiscal year to coincide with the City's fiscal year.

[2] Based on Project QUEST's draft audited financial statements for fiscal year 2002. Total expenses and program expenses were decreased by $454,963, which is the amount of General Fund dollars spent on childcare services during 2002. In prior years, those childcare expenses were paid for from another federally funded City program that is not administered by Project QUEST.

[3] Unduplicated clients taken from the Annual Budget for the City of San Antonio for fiscal years 2000 and 2001.

[4] Unduplicated clients verified based on audit work performed.

Additionally, some performance measures were changed from fiscal year 2001 to fiscal year 2002 and from fiscal year 2002 to fiscal year 2003. Changing performance measures each contract year makes it difficult for DCI or other interested parties to measure Project QUEST's performance over a period of time.

Recommendation 2:

For this specific example, DCI management should strengthen future contract language to include a performance measure based on the total cost of delivering service per unduplicated client as a better measure of Project QUEST's overall efficiency.

We recommend that DCI management (and other departments) establish core performance measures that remain consistent from year to year to facilitate performance evaluation of an agency. Performance measures should also be designed to be consistent between agencies so that the City Council, City management, and other interested parties can evaluate performance among and between different agencies. For example, performance measures should be developed that show the cost per unduplicated client based on total costs, direct client services and payments, and general and administrative costs.

DCI's Response:

DCI concurs with the recommendation. DCI will work with Asset Management, the Performance Analysis Team, and AWD to improve the performance measurement process.

ISSUE 3: TRAINING AND SUPPORTIVE SERVICE PAYMENTS

The City's General Fund/YO! contract with the City does not establish adequate guidelines for training and supportive service payments to participants. In our review of 82 participants for fiscal year 2001, we found that training and supportive service costs ranged from $996 to $12,828 per participant. We did not test for this issue in fiscal year 2002. In addition, we identified support services payments to five participants out of 82 in our sample for fiscal year 2001 that may not have been reasonable or necessary. One of those five payments was to a participant who needed assistance in paying a utility bill because the participant had to pay a $125 traffic fine.

Fewer overall participants can be served when some participants incur significantly more training and support costs than other participants or when some supportive service payments to participants are not reasonable or necessary.

Recommendation 3:

For any agency, DCI management should include contract language that puts caps or limits on the amount of assistance (training, supportive services, etc.) each participant can receive per year. Setting caps or limits will allow for serving more participants, particularly when dealing with budget shortfalls. In addition, DCI management should instruct Project QUEST to return the $125 plus interest that the one participant essentially used to pay a traffic fine.

DCI's Response:

DCI partially concurs with the recommendation. We will study establishing a ceiling for supportive costs. However, we would want flexible restrictions that will allow DCI to provide supportive costs when this support makes the difference on whether a participant finishes their program.

DCI will have Project QUEST research the circumstances involving the potential use of supportive funds for a non-intended purpose. If warranted, DCI will request the funds be returned. This action will be completed by April 15, 2003.

ISSUE 4: JOB PLACEMENTS OUTSIDE OF SAN ANTONIO

Three of 82 participant files we reviewed for fiscal year 2001 indicated that the participant found employment outside of San Antonio. We did not test for this issue in fiscal year 2002. Project QUEST has an informal policy that expresses its desire to have participants work in San Antonio for at least six months after graduation. The contract does not address this issue.

Recommendation 4:

The City Council and City management need to decide if this is a significant issue. If the intent of the City is to provide support for employment in San Antonio, this intention should be formalized in the contract document, including appropriate provisions for unusual conditions or

exceptions. Project QUEST could recommend participants who meet those exceptions to DCI for approval.

DCI's Response:

DCI concurs with the recommendation. DCI programs are supportive of employment in San Antonio. DCI will confer with the City Attorney's Office to determine if such a stipulation can be included and enforced. This action will be completed by April 15, 2003.

ISSUE 5: INCOME GUIDELINES

Project QUEST participants must meet two of five barriers outlined in the contract language to be accepted into the training program. One of five barriers to participants considered for Project QUEST enrollment is economically disadvantaged, but the contract does not define economically disadvantaged. In addition, counselor notes for six of 82 participants in our sample for fiscal year 2001 indicated that those participants appeared able to finance at least some portion of their training. We did not test for this issue in fiscal year 2002.

Recommendation 5:

DCI management should clarify the contract language to define economically disadvantaged. Particularly in a time of budget shortfalls, DCI management should consider establishing income guidelines for the General Fund/YO! contract.

DCI's Response:

*DCI partially concurs. DCI will modify the contract language and eliminate the economically disadvantaged phrase. This action will be completed on future contracts starting on October 1, 2003. The City's long-term economic viability pivots on how successful we are in raising the education and skill level of **all** of San Antonio's workforce. Although the majority of participants served by Project Quest fall into the low-income category, DCI does not believe it is in the public interest to restrict enrollment solely to low-income residents.*

ISSUE 6: OTHER CONTRACT LANGUAGE ISSUES

We identified the following issues that require DCI management to determine their significance and, if considered significant, clarify the contract language accordingly.

- 6.a. Short-term Training: Five out of 82 participants tested in fiscal year 2001 were enrolled with an expected graduation date two to seven months from enrollment. We did not test for this issue in fiscal year 2002. Project QUEST's stated purpose is to provide long-term job training.

- 6.b. Job Retention: Job retention is not a performance measure in the City's contract with Project QUEST; however, it is an important indication of the effectiveness of the Project

QUEST training program. Project QUEST performs 30, 60, and 90 day follow-ups for their records.

- 6.c. Job Placement Without Project QUEST Assistance: Three participants out of 82 in our sample for fiscal year 2001 did not continue training and found jobs on their own outside their training field. We did not test for this issue in fiscal year 2002. Project QUEST recorded these participants as job placements in reporting its performance measures.

- 6.d. Adequate Documentation for Recruitment Activities: In reviewing the applicant selection process for fiscal year 2001, we categorized recruitment efforts between church and non-church sites. Of the total of 77 recruitment sites, documentation on the number of people attending recruitment activities was not available for 33 percent of the church sites reviewed and 76 percent of the non-church sites reviewed. Having this data would facilitate evaluating the effectiveness of recruitment activities, especially since client enrollment declined significantly from 2001 to 2002.

- 6.e. Participants Earning more than the Contractual Wage Standard: Four participants out of 82 in our sample for fiscal year 2001 were earning in excess of the average wage standard of $9.25 per hour prior to enrolling in Project QUEST. We did not test for this issue in fiscal year 2002.

Recommendation 6:

DCI management should determine the significance of each of these issues and clarify the contract language accordingly.

DCI's Response:

DCI partially concurs with the finding and recommendation.

6a. DCI does not concur. Project Quest's purpose is to raise the education and skill level of participants. Some participants may need 24 months of assistance to achieve a certificate or an associate degree. However, others may enter the program needing only limited assistance to complete their training or education. Project Quest should assist both groups to acquire the requisite skills and education to become employ in one of San Antonio's targeted industries. DCI will modify Project Quest's future performance measures to cover both short and long term training requirements. This action will be completed by October 1, 2003.

6b. DCI concurs. DCI added job retention as a performance measure to Project Quest's FY 2003 contract.

6c. DCI does not concur with the issue. The City's investment in Project QUEST serves to raise the education and skill level of our workforce. It is expected that non-completions, as well as those who complete the program, will exit with the requisite job readiness and education skills necessary to secure employment, through Project QUEST or through their own networks. DCI

will instruct Project Quest to measure participants who complete and, also those that do not complete their training and their pay histories. This action will be completed by April 15, 2003.

6d. DCI agrees that it is a good practice to maintain an attendance log for recruiting events. DCI will instruct Project Quest to develop and implement a procedure that documents their recruiting activities. This action will be completed by April 15,2003.

Although Project Quest lacked detailed documentation on their recruiting activities, as depicted by the following chart, their participants came from every Council District.

Project Quest-Unduplicated Participants by City Council Districts FY 01/02		
City Council District	Number	Percentage
1	15	7.9%
2	16	8.4%
3	12	6.3%
4	38	20.0%
5	16	8.4%
6	17	8.9%
7	26	13.7%
8	22	11.6%
9	9	4.7%
10	19	10.0%
Total New Enrollments	190	

6e. DCI concurs. Project Quest also retrains workers. Frequently, the skills and education that enabled them to secure their previous employment require upgrading. Project Quest should retrain individuals who lack the current education and skills necessary for the city's targeted occupations.

CONCLUSION

We completed an audit of the long-term job-training program operated by Project QUEST, Inc. that was funded by the City of San Antonio for the period from October 1, 2000, through September 30, 2002. We identified findings and issues related to the contract compliance and contract improvements and made recommendations that should assist City Council, City management and Project QUEST in making improvements in these areas. We request that DCI management provide us with a monthly report indicating the status of actions agreed to until all items have been implemented or cleared.

Our audit was designed to provide reasonable but not absolute assurance that Project QUEST complied with its contract with the City. We applied sampling techniques and audit methodologies that meet generally accepted auditing standards; however, there could be instances of non-compliance with the contract that were not identified.

This report is intended for the information of City Council and City staff; however, this report is a matter of public record and its distribution is not limited.