



CITY OF SAN ANTONIO

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July 28, 2006

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Ladies and Gentlemen:

SUBJECT: Audit Report on Follow-up Audit of Project QUEST, Inc.

The City Internal Audit Department is pleased to attach for your review the report for the Follow-up Audit of Project QUEST, Inc. The audit established that Project QUEST, Inc. (Project QUEST) achieved considerable progress in implementing the recommendations observed in the March 2003 audit of Project QUEST.

The audit disclosed that of the 17 recommendations included in the prior audit, 16 were implemented and one was not implemented. The one recommendation not fully implemented dealt with the timely execution of contracts prior to the start of work for contracted services. The City Management's Corrective Action Plan indicates that procedures are now in place that requires contracts to be executed prior to the start date of the contract.

We appreciate the cooperation and assistance extended to our auditors by the Department of Community Initiatives staff during the course of this audit. Please feel free to contact us to discuss the observations in this report.

Respectfully submitted,

Mark S. Swann CPA, CIA, CISA
Interim City Auditor

Enclosures

cc: Leticia Vacek, City Clerk
Frances Gonzales, Assistant City Manager



CITY OF SAN ANTONIO
INTERNAL AUDIT DEPARTMENT

**Follow-up Audit
of
Project QUEST, Inc.**

Project No. AU06-005

Issue Date: July 28, 2006

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Table of Contents

	<u>PAGE</u>
Executive Summary	1
Introduction	
Background	2
Criteria.....	2
Audit Objectives	2
Scope	2
Methodology.....	3
Recommendations, Management Responses and Follow-up Review Status	
1 Political Activity.....	4
2 Timely Submission of Audited Financial Statements	4
3 Performance Measures	4
4 Diversion of Flex (Health Insurance) to Deferred Compensation, Annuities, and Employee Compensation	5
5 Pension Contribution Forfeitures.....	5
6 Budget Adjustments	5
7 Fraud	6
8 GED Eligibility Requirements	6
9 Internal Controls over Tools	6
10 Documentation to Support Contract Compliance.....	7
11 Contract Execution	7
12 Performance Measures	7
13 Training and Supportive Service Payments	8
14 Job Placements Outside of San Antonio.....	8
15 Income Guidelines.....	8
16 Other Contract Language Issues	9
Management Response	

Executive Summary

Overall, the follow-up review has established that Project QUEST, Inc. (Project QUEST) achieved considerable progress in addressing the recommendations and the broad spectrum of management practices that were observed in the March 2003 audit report. This follow-up audit determined that the Department of Community Initiatives (DCI) has also taken steps to enhance management control issues over contracting processes and performance measures issues observed during the previous audit. In the case where the audit recommendation was not implemented at all, the follow-up recommendation further stresses the need for and risk of not implementing the previous recommendation.

The previous audit made, in total, 17 recommendations. Of the 17 recommendations 16 were implemented and one was not implemented. Status of all 17 recommendations is explained in the Recommendations, Management Responses and Follow-up Review Status section of this report. The recommendation that is was not implemented, together with the follow-up recommendation is summarized as follows:

Recommendation Not Implemented

Prior Audit Reference	Prior Audit Recommendation	Status	Repeat Recommendation
Recommendation #2, Issue 1 (Page 9)	Contract Execution Contracts should be executed prior to contract start date.	Not Implemented	Recommended again that contracts be executed before the work start date.

Background

In accordance with the City of San Antonio's Internal Audit Plan for 2005, the Internal Audit Department has completed a follow-up audit of the March 2003 Audit of Project QUEST, Inc. (Project QUEST), which is administered by the City of San Antonio's Department of Community Initiatives (DCI). The focus of the follow-up was to determine the extent of progress achieved in response to the recommendations presented in the March 2003 audit report.

The March 2003 audit report was provided to DCI for Management consideration and the preparation of managerial responses to the observations and recommendations presented. The audit report contained seventeen (17) recommendations that focused on areas where opportunities for improvement could be availed in various managerial practices over the administration of Project QUEST.

This follow-up audit discusses the details of the recommendations of the March 2003 audit report and the current status of each recommendation. The previous audit had two major findings totaling 17 issues. The implementation status of the recommendations and follow-up recommendations has been provided in the Recommendations, Management Responses and Follow-up Review Status section of this report.

Criteria

It should be noted that this follow-up review was not conducted as a new audit exercised against specific pre-established audit criteria. Also, the follow-up was not undertaken to form an audit opinion on the adequacy of the internal control structure or current management practices within Project QUEST or DCI. The results of the follow-up are based solely on interviews, examination, and limited testing of pertinent documentation provided by Management of Project QUEST in support of implementation of audit recommendations.

Audit Objectives

Because the organizational configuration and size of both Project QUEST and DCI have changed substantially since the March 2003 audit and several program performance requirements have been modified, some of the original recommendations have become somewhat redundant or need to be tailored to the new environment. These occurrences have been noted and commented upon in this report. The follow-up audit provides City and DCI Management with an objective report on the progress being achieved in areas such as:

- the preparation of an action plan to implement the corrective action identified
- the preparation of periodic status reports to monitor and assess the extent of progress achieved in implementing the action plan
- the progress made by DCI Management towards addressing recommendations and suggestions presented in March 2003 Project QUEST Audit Report

Scope

The scope of the audit focused mainly on whether the previous audit recommendations have been implemented and are producing results as desired. Tests, as appropriate under the circumstances, were performed for the period April 2003 through December 2005.

The follow-up audit was conducted at Project QUEST and DCI offices at various times from February 12, 2006 through April 22, 2006. Interviews were undertaken with the current Managers of Project QUEST and DCI, and appropriate documentation relevant to the audit report recommendations was examined to establish the degree of implementation and action that had been achieved.

Methodology

The follow-up work consisted of reviewing actions taken and progress achieved with respect to the recommendations that were made in the March 2003 audit of Project QUEST. Since the release of the audit several functional, organizational and workforce changes have occurred. It was possible to establish that actions had been undertaken on some of the recommendations presented in the March 2003 audit report. In a few instances, either alternate compensating controls were implemented or management action was no longer required. In cases such as these, it has been noted in this report that circumstances have altered the recommendation to a degree.

The review was performed in compliance with generally accepted government auditing standards issued by the U.S. Government Accountability Office. In accordance with 2003 auditing standards, the audit included limited steps designed to detect instances of fraud and abuse significant to these audit objectives.

RECOMMENDATIONS, MANAGEMENT RESPONSES AND FOLLOW-UP REVIEW STATUS

The previous audit released in March 2003 had seventeen recommendations where Project QUEST did not comply with certain provisions in its contracts with the City. The previous recommendations together with what was found to be the current status of implementation of the recommendations are as follows:

Recommendation 1, Issues 1 and 2 - Political Activity

Due to the significance of these issues, we verbally communicated this information in late February 2002 to Department of Housing and Community Development (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 Response

DCI concurs with the finding and recommendation.

Follow-up Review Status: Implemented

DCI, HCD, and Project QUEST have developed, adopted, and enforced adequate procedures to encourage compliance with the political activity provisions of the City's contracts with Project QUEST.

Recommendation 1, Issue 3 - Timely Submission of Audited Financial Statements

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 City's Operational Guidelines and General Provisions (OGGP).

DCI's Response

DCI concurs with the finding and recommendation.

Follow-up Review Status: Implemented

Management of Project Quest has taken required steps to ensure that audited financial statements are submitted within 120 days after its fiscal year end as required by the contract.

Recommendation 1, Issue 4 - Performance Measures

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.

Follow-up Review Status: Implemented

Management of the DCI and Project QUEST has taken steps to standardize and improve monitoring process to ensure performance goals are met. Contracts issued subsequent to the

audit were strengthened by including progressive consequences for not meeting performance goals, as recommended in the audit.

Recommendation 1, Issue 5 - Diversion of Flex (Health Insurance) to Deferred Compensation, Annuities, and Employee Compensation

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.

DCI's Response

DCI concurs with the finding and recommendation.

Follow-up Review Status: Implemented

Management of DCI and Project QUEST has taken appropriate measures, after consultation with the City Attorney's Office and City Internal Audit, to adjust subsequent budgets with agreed upon amounts.

Recommendation 1, Issue 6 - Pension Contribution Forfeitures

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 the finding and recommendation.

Follow-up Review Status: Implemented

Management of DCI and Project QUEST has taken appropriate measures, after consultation with the City Attorney's Office, to implement this recommendation. The measures included Project QUEST's Board of Directors' resolution amending Project QUEST's Employees' Profit Sharing Plan and Trust. The amendments are as follows:

- Effective July 1, 2004, forfeitures will be used to reduce employer's contribution.
- Effective December 15, 2003, hardship distribution may be made from the plan.

Management of DCI and Project QUEST has adequately addressed the issue by adopting alternate compensating measures.

Recommendation 1, Issue 7 - Budget Adjustments

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.

Follow-up Review Current Status: Implemented

The review, examination of documents, and limited tests indicated that Project QUEST has made significant progress in the budgeting process. Project QUEST has implemented this recommendation.

Recommendation 1, Issue 8 - Fraud

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

DCI's Response

DCI concurs with the finding and recommendation.

Follow-up Review Status: Implemented

Management of Project QUEST has, in agreement with DCI, refunded \$325 on July 30, 2003 to the City. In addition, Project Quest has developed, adopted and enforced adequate procedures to discourage fraud, theft, and embezzlement from occurring.

Recommendation 1, Issue 9 - GED Eligibility Requirements

DCI Management should ensure that Project QUEST complies with the General Fund/YO! contract (Project Quest General Fund/Youth Opportunity Program Contract) requirement that participants have a high school diploma or GED before entering Project QUEST's long-term job training program.

DCI's Response

DCI concurs with the finding and recommendation.

Follow-up Review Status: Implemented

DCI and Project QUEST Management have taken appropriate steps to ensure that participants have a high school diploma or GED before entering Project QUEST's long-term job training program. Interviews with Management personnel, review and examination of appropriate documents, and limited tests indicated that GED eligibility requirement is being followed.

Recommendation 1, Issue 10 - Internal Controls over Tools

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.

Follow-up Review Status: Implemented

An interview with Management personnel, review and examination of appropriate documents, and a limited test of transactions indicated that procedures have been strengthened to ensure that participants who do not complete the program return tools provided to them.

Recommendation 1, Issue 11 - Documentation to Support Contract Compliance

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.

Follow-up Review Status: Implemented

The participant placement wage is supported by documentation received from the employer, an independent third party source.

Recommendation 2, Issue 1 - Contract Execution

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.

Follow-up Review Status: Not Implemented

The examination of two contracts executed subsequent to the March 2003 audit disclosed that they were executed after the start of work. The following information is pertinent.

Project QUEST General Fund / YO! Contract	FY 2005	FY 2006
Start Date	October 1, 2004	October 1, 2005
Execution Date	November 2, 2004	October 25, 2005

Follow-up Review Recommendation

It is again recommended that the contract be executed before the start date. Failure to execute the contract before the start date may expose the City to financial and contract compliance risks.

Recommendation 2, Issue 2 - Performance Measures

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.

Follow-up Review Status: Implemented

The examination of subsequent contracts disclosed that while the cost of delivering service is not included in the contracts as a measure of performance, DCI Management has established core performance measures to facilitate contract performance evaluation.

Recommendation 2, Issue 3 - Training and Supportive Service Payments

For any agency, City 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.

Follow-up Review Status: Implemented

Current contract language does not include a provision that puts caps or limits on the amount of assistance (training, supportive services, etc.) each participant can receive per year. However, DCI's written procedures regarding training and supportive service payments have been revised to include limits on the amount of assistance (training, supportive services, etc.) each participant can receive per year. DCI Management did not consider it germane to advise Project QUEST to return the \$125 plus interest from the subject participant.

Recommendation 2, Issue 4 - Job Placements Outside of San Antonio

The City Council and City Management need to decide whether 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.

Follow-up Review Status: Implemented

DCI and Project Quest have continued to encourage participants to seek employment in San Antonio and this intention is prescribed in DCI's Policy Memorandum.

Recommendation 2, Issue 5 - Income Guidelines

DCI Management should clarify the contract language to define economically disadvantaged. Particularly in the time of budget shortfalls, DCI Management should consider establishing income guidelines for the General Fund/ YO! Contract (Project Quest General Fund/Youth Opportunity Program Contract).

DCI's Response

DCI partially concurs with the recommendation.

Follow-up Review Status: Implemented

DCI, as stated in their previous response, has modified contract language and eliminated the economically disadvantaged phrase.

Recommendation 2, Issue 6 - Other Contract Language Issues

DCI Management should determine the significance of each of the following issues and clarify the contract language accordingly:

- Short-term Training
- Job retention
- Job Placement Without Project Quest Assistance
- Adequate Documentation for recruitment Activities
- Participants Earning more than the Contractual Wage Standards.

DCI's Response

DCI partially concurs with the recommendation.

Follow-up Review Status: Implemented

DCI Management has taken appropriate steps to determine the significance of each of these issues and modified the contract language, where deemed necessary, as indicated in their previous response.

The full text of the March 2003 report may be obtained by contacting the City's Internal Audit Department at Suite 600, 111 Soledad Street, SanAntonio, TX 787205



CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO TEXAS 78283-3966

May 30, 2006

City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Follow-up Audit of the Project Quest, Inc.

City Management, the Department of Community Initiatives (DCI) and the Project Quest have reviewed the audit report for the Project Quest, Inc. and herein is a Corrective Action Plan for the recommendation. Having an objective review of this business unit has resulted in better information for Management to develop operating strategies for the future that will improve the overall management of the Project Quest Program for the City.

Repeat Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
Contract Execution					
Finding 2 Issue 1	Strongly recommended again that contracts be executed before the work start date.	7	Accept	Dennis J. Campa, Director	October 1, 2006 Reoccurring with each award
<p>Action plan: The Contract Services Section within the Department of Community Initiatives has procedures in place that require contracts be executed prior to the start date of the contract. A database tracks the status of all department contracts and the report is provided to the director monthly or more often if necessary. Additionally the department's Office of Quality Assurance reviews the status of contracts and provides recommendations to finalize contract.</p> <p>On occasion, mitigating circumstances have delayed the execution of the Project QUEST contract. When substantial changes are required of a contract, negotiations between the contractor and the department must be completed to ensure council's purpose is incorporated within the contract.</p>					

DCI appreciates the City Auditor's comments and technical assistance provided concerning the Project Quest Program. We are committed to addressing the repeated recommendation in the follow-up audit report and the plan of action presented.

Sincerely,


Frances Gonzalez
Assistant City Manager


Dennis Campa
Director, Department of Community Initiatives