



# CITY OF SAN ANTONIO

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September 30, 2009

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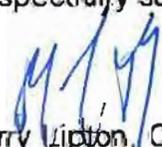
Mayor and Council Members:

SUBJECT: Workforce Development – Project QUEST Audit Report

We are pleased to send you the audit report of the Workforce Development – Project QUEST managed by the Economic Development Department. This audit began in April 2009 and concluded with an exit meeting with department management in August 2009. Management's verbatim response is included in Appendix B of the report. The Economic Development Department should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

  
Barry Lipton, CPA, DABFA  
Deputy City Auditor  
City of San Antonio

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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Audit of Workforce Development – Project QUEST

Economic Development Department

Project No. AU09-007

September 30, 2009

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# Executive Summary

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As part of the annual Audit Plan, we conducted an audit of the Workforce Development – Project QUEST contract managed by the Economic Development Department (EDD). The audit objectives, conclusions, and recommendations follow:

## **1) Is Project QUEST effectively meeting its program objective?**

Project QUEST is effectively meeting its program objective by providing individuals with the necessary skills for long-term employment so that they can become a permanent part of a productive workforce. Project QUEST has an 82% participant graduation rate from accredited programs. Project QUEST markets to the targeted audience, enrolls participants in high wage, high demand career training, and assists participants in securing employment in their respective fields.

## **2) Does the City and Project QUEST comply with the contract terms?**

Overall, the City and Project QUEST complied with contract terms for fiscal years 2008 and 2009. However, controls over payments to Project QUEST needed improvement.

- EDD paid approximately \$87,000 (includes \$2,700 in duplicate and unsupported invoices) more during fiscal 2008 for Project QUEST expenses than allowed per the contract. This occurred because procedures were not in place and operating to monitor and ensure the City's reimbursement to Project QUEST did not exceed the 65% contractual limitation on the City's contribution to the program.
- EDD paid \$3,648 for duplicate and unsupported invoices received from Project QUEST during fiscal years 2008 and 2009 (includes the \$2,700 discussed above).
- EDD did not follow existing procedures related to advance payments totaling \$39,000 to Project QUEST during fiscal years 2008 and 2009.
- The contract with Project QUEST does not specifically address funding for certain services provided at the Quest Center. The Quest Center provides remedial training to individuals who are not yet qualified to enroll in accredited programs. According to the contract, to be a Project QUEST participant, an individual must be at a level sufficient to enroll in college level courses. However, EDD paid Project QUEST approximately \$10,000 and \$33,000 for personnel costs related to providing remedial training during fiscal years 2008 and 2009, respectively.

We recommend the EDD Director:

- Request reimbursement from Project QUEST for the approximately \$88,000 overpayment made during fiscal years 2008 and 2009 or reduce future reimbursements to Project QUEST in an amount equal to the overpayment.

- Closely review requests for reimbursement from Project QUEST. Do not make advance payments unless Project QUEST has received appropriate approval from the EDD Director.
- In the next contract cycle, clearly define reimbursable costs for the Quest Center.

### **3) Is EDD adequately monitoring Project QUEST performance?**

EDD should improve its monitoring of Project QUEST for program performance and contract compliance. Although EDD reviewed required program reporting from Project QUEST on a monthly basis, EDD did not validate the accuracy of reported performance results. Project QUEST prepared incorrect or incomplete performance reports for three of six performance measures during fiscal year 2008. In addition, Project QUEST did not prepare a report for one measure during fiscal year 2009. However, our computation of performance results indicated that Project QUEST met contract performance goals and program objectives.

We recommend the EDD Director:

- Review the accuracy of Project QUEST reported performance results on a quarterly basis.
- Follow up with Project QUEST to ensure complete and accurate reporting of performance to the City in accordance with the contract.

Management's verbatim response is included at **Appendix B** on page 7.

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## Background

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The City of San Antonio entered into a \$2 million contract with Project QUEST for fiscal year 2009 to provide workforce development for adults with a high school diploma or a general education diploma. Per contract terms and subsequent City Council action in June 2009, Project QUEST must provide a 25% matching contribution<sup>1</sup> from non-City funding sources for the program. Since October 2007, the Economic Development Department (EDD) has been responsible for monitoring the City's annual contract with Project QUEST. Prior to this, the Department of Community Initiatives monitored this annual contract.

Project QUEST is a 501(c)(3) non-profit corporation governed by an independent Board of Directors and Executive Management team. Its mission is to provide social and economic benefits to the City of San Antonio and Bexar County through investments in long-term job training for individuals who otherwise would not have the opportunity for employment.

Participants in Project QUEST's job-training program must test at a level sufficient to enroll in college level courses before entering the program. In addition to financial assistance for job training, program participants can receive career counseling, personal coaching, support service assistance (i.e., transportation, childcare, housing, and utility assistance), and pre-employment assistance designed to promote long-term success. Project QUEST served 480 participants during fiscal year 2008 with City funding and 449 participants as of July 31, 2009 for fiscal year 2009. See **Exhibit 1** for the fiscal year 2009 Project QUEST budget by expense type regarding the City's contract amount.

### Exhibit 1 - Fiscal Year 2009 Project QUEST Budget of City Funding

<u>Expense Category</u>	<u>Amount</u>
Personnel Expenses for Direct Services*	\$ 1,117,795
Administrative Personnel Expenses	248,307
Participant Tuition and Training Expenses*	317,170
Participant Support Services Expenses*	38,000
Program Direct Expenses*	228,648
Program Administrative Expenses	50,080
Total City Funding	<u>\$ 2,000,000</u>

\* Direct Services

Source: Project QUEST contract

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<sup>1</sup> Project QUEST's matching requirement was 50% in fiscal year 2007 and 35% for fiscal year 2008.

## **Audit Scope and Methodology**

The audit scope included aspects of contract compliance, program effectiveness, and EDD monitoring of the Project QUEST program from October 1, 2007 (fiscal year 2008) through March 31, 2009 (fiscal year 2009).

We interviewed personnel from EDD and Project QUEST to obtain an understanding of the Project QUEST program. We also reviewed relevant documentation, such as contracts, City ordinances, City Funding Guides, and departmental policies and procedures. We reviewed source documents that included reimbursement requests, invoices, and required participant forms.

We selected a random attribute sample of 47 program participants from 592 participants served during the audit period and reviewed all expenses for each participant to evaluate compliance with City guidelines. In addition, we interviewed 25 current Project QUEST participants to solicit their perspective on the Project QUEST program.

We relied on computer-processed data in the Project QUEST's Applicant Information Management (AIM) system to review participant expenses. We performed direct tests of the data rather than evaluating the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit from April 2009 to July 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate information to provide a reasonable basis for the results based on the audit objectives. We believe that the information obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

## Audit Results and Recommendations

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### A. Controls over Payments to Project QUEST

#### A.1 Funding in Excess of 65% Limitation.

EDD paid approximately \$87,000 (includes \$2,700 in duplicate and unsupported invoices from A.2) more during fiscal year 2008 for Project QUEST expenses than allowed per the contract. This occurred because controls were not in place and operating to monitor and ensure the City's reimbursement to Project QUEST did not exceed the 65% contractual limitation on the City's contribution to the program.

#### A.2 Duplicate and Unsupported Invoices.

EDD paid Project QUEST \$3,648 for duplicate and unsupported invoices during fiscal years 2008 and 2009 (includes the \$2,700 discussed in A.1 above). Costs eligible for reimbursement must be necessary, reasonable, allowable, and supported. This occurred because EDD did not ensure invoices were appropriately supported prior to payment.

#### A.3 Procedures for Providing Advance Payments.

EDD did not follow current procedures related to advance payments totaling \$39,000 to Project QUEST during fiscal years 2008 and 2009. These payments were made to satisfy monthly billings submitted by Project QUEST. Monthly billings included paid and unpaid vendor invoices. However, the contract requires Project QUEST to submit invoices to EDD for reimbursement after vendors are paid. Project QUEST may also formally request approval for advance payments from the EDD Director. Effective July 7, 2009, EDD implemented a policy requiring specific supporting documentation from delegate agencies to prevent future occurrences of advance payments without appropriate authorization.

#### A.4 Costs related to Quest Center Services.

The contract between the City and Project QUEST does not specifically address funding costs for services provided at the Quest Center. During fiscal years 2008 and 2009, the City paid personnel costs related to services provided at the Quest Center of approximately \$10,000 and \$33,000, respectively. The Quest Center opened in April 2008 to provide additional services, such as remedial training to individuals not meeting college entrance requirements (i.e., not yet eligible for Project QUEST). The Quest Center opened subsequent to award of the 2008 contract. EDD did not modify the 2008 contract nor address Quest Center funding in the 2009 contract. By not addressing expenses to operate the Center in the contracts, it created uncertainty concerning the City's intent to fund the Quest Center.

**Recommendations:** EDD Director should:

A.1 and A.2 Request reimbursement from Project QUEST for the approximately \$88,000 overpayment made during fiscal years 2008 and 2009 or reduce future reimbursements to Project QUEST in an amount equal to the overpayment.

A.3 Closely review requests for reimbursement from Project QUEST. Do not make advance payments unless Project QUEST has received appropriate approval from the EDD Director.

A.4 In the next contract cycle, clearly define reimbursable costs for the Quest Center.

**B. Monitoring Project QUEST Performance**

**B.1 Performance Measures.**

EDD should improve its monitoring of Project QUEST for program performance and contract compliance. Although EDD reviewed required program reporting from Project QUEST on a monthly basis, EDD did not validate the accuracy of reported performance results. Project QUEST prepared incorrect or incomplete performance reports for three of six performance measures during fiscal year 2008. In addition, Project QUEST did not prepare a report for one measure during fiscal year 2009.

The contract between the City and Project QUEST contains the Balanced Scorecard of required performance measures and reporting frequency. Our computation of performance results indicated that Project QUEST met contract performance goals and program objectives. However, as results from the Balanced Scorecard provide the primary measurement on the effectiveness of the program, inaccurate or incomplete reporting could be misleading and affect future funding decisions. Specifically, we noted the following:

Fiscal Year 2008 Measure: Average hourly wage for Project QUEST participants placed in jobs.

Project QUEST improperly excluded from the calculation participants with wages less than \$10 an hour and those participants working less than 32 hours per week. However, our computation of average hourly wages indicates that Project QUEST graduates' income exceeded the program goal of \$15.

Fiscal Year 2008 Measures: Percent of participants placed still employed after 6 months and employed after 18 months.

Project QUEST did not comply with contractual requirements to report the employment status of program participants 6 months and 18 months after their employment. The employment status for 46 of 171 participant graduates was not included in the 6-month performance report. For the 18-month performance

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period, the employment status for 50 of 126 participant graduates was unreported.

Fiscal Year 2009 Measure: Change in income from pre-QUEST wages to post-QUEST wages.

Project QUEST did not report on this performance measure for the first two quarters of fiscal year 2009. This was a new measure for fiscal year 2009.

**Recommendation:** EDD Director should:

B.1 Review the accuracy of Project QUEST's reported performance results on a quarterly basis. In addition, follow up with Project QUEST to ensure complete and accurate reporting of performance to the City in accordance with the contract.

## **Appendix A – Staff Acknowledgment**

Denis Cano, CPA, CIA, CISA, Audit Manager  
Kevin Barthold, CPA, CIA, CISA, Auditor-in-Charge  
Tanya Rodriguez, Auditor

## Appendix B – Management Response



# CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

September 21, 2009

Barry Lipton, CPA, DABFA  
 Deputy City Auditor  
 San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Workforce Development – Project QUEST contract

The Economic Development Department has reviewed the audit report and has developed the corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A.	<b>Controls over Payments to Project Quest</b>		Accept	Mary Lara	Sept. 30, 2009
A.1 A.2	<b>Funding in Excess of 65% Limitation</b> <b>Duplicate and Unsupported Invoices</b>  Recommendation: Request reimbursement from Project QUEST for the approximately \$88,000 overpayment made during fiscal years 2008 and 2009 or reduce future reimbursements to Project QUEST in an amount equal to the overpayment.	4			
<p><b><u>Action plan:</u></b></p> <p><b>A.1:</b></p> <p>In FY 2008, Project Quest was required to provide match documentation totaling \$1,076,923 by December 31, 2007, to potentially receive the \$2,000,000 funding award from the City. Quest submitted match documentation totaling \$1,324,603 to the Department on December 31, 2007. The Department only accepted \$901,229 of the Quest documentation as qualifying match allowing the City to reimburse Quest up to \$1,673,711 out of the potential \$2,000,000. On April 11, 2008, the Department Director granted Quest an extension until June 30 to provide any additional qualifying match documentation recognizing Quest's continued efforts to secure more matching funds. On June 27, 2008, Quest did provide documentation for the remainder of the match requirement.</p>					

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Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b></p> <p><b>A.1: (cont)</b></p> <p>While the Department remained flexible in allowing Quest additional time to meet their match requirement, staff continued to process Quest invoices for reimbursement to ensure they had sufficient funding to continue operating. During this period, staff was fully aware of the additional contractual requirement to ensure the City did not reimburse Quest more than 65% of their total FY 2008 expenditures. However, the delay experienced by Quest in securing, receiving and utilizing matching funds made it difficult for staff to maintain a balanced 65%/35% spend rate throughout the year without denying Quest needed funds for operational expenses. In summary, Quest eventually provided match documentation totaling \$1,081,869 which exceeded their match requirement of \$1,076,923. Based on invoices submitted, the City reimbursed Quest \$1,957,997 in FY 2008. This final amount, however, represented 68% of Quest's FY 2008 expenses of \$2,878,494 and exceeded the contractual requirement by 3%.</p> <p><u>Corrective Action:</u> To remedy this discrepancy, staff is recommending that the 3% over payment equating to approximately \$88,000 be subtracted from the total amount of \$2,000,000 appropriated for Quest in FY 2009 based on match documentation provided to the Department. City staff has discussed this remedy with Project Quest, and they are in agreement with this proposed corrective action. While the requirement upon which this finding is based no longer exists in the current FY 2009-2010 Funding Guide, staff is continuing to monitor the spend rate to ensure that Quest is utilizing their matching funds as they are received. In FY 2009 the spend rate is 75%-City to 25%-Quest based on the Council approved reduction in the match requirement from 35% to 25%.</p> <p><b>A2:</b></p> <p>Staff acknowledges that it reimbursed Quest \$3,648 for duplicate invoices processed out of a total amount of \$3,609,193 in reimbursements processed in FY 2008 and 2009. This represents an error rate of 0.1%.</p> <p><u>Corrective Action:</u> Staff is instituting additional procedures to separately log invoices by vendor as a measure to cross check potential duplicate invoices. Staff will be deducting this amount from FY 2009 Quest invoices as repayment to the City as part of the \$88,000 deduction under the A1 Audit Finding.</p>				
A.3	<p><b>Procedures for Providing Advance Payments</b></p> <p>Recommendation: Closely review requests for reimbursement from Project QUEST. Do not make advance payments unless Project QUEST has received appropriate approval from the EDD Director.</p>	4	Accept	Mary Lara	July 7, 2009

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Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b> Quest had submitted invoices to the Department with copies of checks to vendors totaling \$39,000. Staff assumed these checks had been provided to the vendors and cleared the banking system. Therefore, staff reimbursed Quest for these qualifying expenses. The Audit review revealed that these checks had not yet been processed by Quest, and therefore should not have been reimbursed by the Department (i.e., advance payments).</p> <p><b>Corrective Action:</b> On July 7, 2009, the Department advised all Workforce Delegate Agencies, including Project Quest, that they must now submit additional documentation verifying actual reimbursement to vendors to include providing evidence of cleared bank checks validating payments before reimbursement will be authorized by the City. If necessary, Quest can seek advance payment in accordance with provisions in the Contract.</p>				
A.4	<p><b>Costs related to Quest Center Services</b></p> <p>Recommendation: In the next contract cycle, clearly define reimbursable costs for the Quest Center.</p>	4	Partially Accept	Mary Lara	Sep 4, 2009
	<p><b>Action plan:</b> As indicated in the Audit Report, the Quest Center was opened in April 2008 – six months into the contract cycle for FY 2008. The Department was fully aware that Quest was utilizing a portion of City funding to support the Quest Center and in fact determined such expenditures were justified. The Quest Center processes and assists clients who enter the Quest training program which is the program for which Council approved funding. Technically, however, Quest did not mention this program in their responses to the City's Requests for Proposals in FY 2007-2008 or FY 2009-2010, because the program did not yet exist. This type of workforce related assistance, however, would have qualified to compete for City funding under the RFPs, and staff subsequently considered it a part of the overall Quest training program.</p> <p><b>Corrective Action:</b> As recommended, staff will clarify the requirement for all agencies to identify any potentially qualifying services eligible for funding in responses to the next RFP in 2010.</p>				
B.	<p><b>Monitoring Project QUEST Performance</b></p>		Accept	Mary Lara	Oct 31, 2009
B.1	<p><b>Performance Measures</b></p> <p>Recommendation: Review the accuracy of Project QUEST's reported performance results on a quarterly basis. In addition, follow up with Project QUEST to ensure complete and accurate reporting of performance to the City in accordance with the contract.</p>	5			

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Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b> Staff acknowledges it must do a more thorough job in monitoring and auditing performance reports submitted by Quest.</p> <p><b>Corrective Action:</b> Staff will perform an onsite audit at the end of FY 2009 to check and validate the entire year's performance data.</p>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



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A.J. Rodriguez, Deputy City Manager  
Interim Economic Development Director