

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector	(2) MEETING DATE 12/15/2015	(3) CONTACT/PHONE Kerry Bailey Suzanne DeWitt 788-2979 781-4846	
(4) SUBJECT Submittal of the report for the Henkels & McCoy, Inc. Workforce Investment Act Annual Fiscal and Procurement Review for program years 2013-2014 and 2014-2015. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board receive, review, and file the report for the Henkels & McCoy, Inc. Workforce Investment Act Annual Fiscal and Procurement Review for program years 2013-2014 and 2014-2015 and the Henkels & McCoy response to findings.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____) <input type="checkbox"/> Board Business (Time Est. ____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

FROM: James P. Erb, CPA, Auditor - Controller - Treasurer - Tax Collector

DATE: 12/15/2015

SUBJECT: Submittal of the report for the Henkels & McCoy, Inc. Workforce Investment Act Annual Fiscal and Procurement Review for program years 2013-2014 and 2014-2015. All Districts.

RECOMMENDATION

It is recommended that the Board receive, review, and file the report for the Henkels & McCoy, Inc. Workforce Investment Act Annual Fiscal and Procurement Review for program years 2013-2014 and 2014-2015 and the Henkels & McCoy response to findings.

DISCUSSION

California implemented the federal Workforce Investment Act (WIA) of 1998 in the year 2000 with the goal of building a comprehensive workforce investment system that would increase employment opportunities, job earnings and retention while improving occupational skills to sustain California's economic growth in future years.

Henkels & McCoy, Inc (H&M) was selected to provide targeted youth employment services to older and out-of school youth in San Luis Obispo County. H&M was selected based on their experience with implementing employment and work programs for WIA - eligible at-risk youth. The Board approved an initial contract dated February 4, 2014 for H&M to provide youth services to the North County area. The Board also approved a contract dated March 17, 2015 which increased H&M's service area to all of San Luis Obispo County.

The purpose of our review was to determine H&M's level of compliance with applicable federal and state laws, regulations, policies and directives related to the WIA funds regarding financial management and procurement for program years 2013-14 and 2014-15.

We have attached our monitoring report which includes two fiscal review findings and one procurement review finding. We have also attached H&M's response to our findings.

OTHER AGENCY INVOLVEMENT/IMPACT

Department of Social Services

FINANCIAL CONSIDERATIONS

The County contracted with Henkels & McCoy, Inc. for \$344,026 for program years 2013-2014 and 2014-2015.

RESULTS

We determined Henkels & McCoy, Inc. generally met applicable WIA requirements concerning both financial management and procurement practices for program years 2013-2014 and 2014-2015.

However, we found three instances where H&M did not comply with WIA regulations, and we made a suggested improvement for an issue which did not rise to the level of non-compliance. Our findings and recommendations are detailed in the attached report. Henkels & McCoy's responses to our findings are also attached.

ATTACHMENTS

1. Final Monitoring Report
2. Henkels & McCoy, Inc. Response



COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX
COLLECTOR • PUBLIC ADMINISTRATOR

Workforce Investment Act Fiscal and Procurement Review Final Monitoring Report Program Years 2013-14 & 2014-15

September 2015

**JAMES P. ERB, CPA
Auditor-Controller
Treasurer-Tax Collector-Public Administrator**



COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX
COLLECTOR • PUBLIC ADMINISTRATOR

September 29, 2015

Jon Rubin, Regional Manager
Henkels & McCoy Training Services
512 Railway Avenue, #255
Campbell, Ca 95008-3045

RE: Fiscal and Procurement Review Final Report

Dear Mr. Rubin:

This report is to inform you of the results of our review for Program Years 2013-14 & 2014-15 of Henkels & McCoy, Inc.'s grant financial management and procurement systems. For the fiscal portion of this review, we focused on the following areas: fiscal policies and procedures, the accounting system, reporting, program income, expenditures, internal controls, allowable costs, cash management, cost allocation, indirect costs, single audit and audit resolution policies and procedures, and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and a selection of service providers, and cost and price analyses.

Our review was conducted under the authority of Section 667.410 (b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by Henkels & McCoy, Inc. with applicable federal and state laws, regulations, policies, and directives related to the Workforce Investment Act (WIA) grant regarding financial management and procurement for Program Years 2013-14 & 2014-15.

We collected the information for this report through interviews with representatives of Henkels & McCoy, Inc., a review of applicable policies and procedures, and a review of documentation retained by Henkels & McCoy, Inc. for a sample of reimbursement claims, expenditures and procurements for Program Years 2013-14 & 2014-15.

BACKGROUND

Henkels & McCoy, Inc. was awarded Workforce Investment Act (WIA) Youth Employment and Training Services funds from the County of San Luis Obispo in the amount of \$344,026 to provide youth services to overcome barriers to employment, improve educational and workforce skill competencies, and increase independence and self sufficiency for eligible youth in San Luis Obispo County.

FISCAL REVIEW RESULTS

We determined, Henkels & McCoy Inc. is meeting applicable WIA requirements concerning financial management for program years 2013-2014 and 2014-2015 with two exceptions which are detailed below. Also, during our review we made one suggested improvement for an issue which did not rise to the level of non-compliance: we noted during our review an expense report did not have a supporting receipt for gift certificates purchased. Best business practice is to reconcile expense reports to receipts. When expense reports are not reconciled the risk of approving inappropriate or fraudulent expenses increases.

FINDING 1

Requirement: The standards for internal control in the federal government require management to clearly document internal controls and all transactions and other significant events. Additionally, transactions must be authorized and executed by a person acting within the scope of their authority.

Observation: Of the twenty timecards tested eight were not signed by the employee's supervisor, and two were not signed by the employee.

Cause: Staff neglected to review and approve timecards.

Effect: When time cards are not reviewed by supervisors the risk for payroll error and fraud increases.

Recommendation: We recommend that all timecards be signed by the employee and reviewed and signed by the employee's supervisor.

FINDING 2

Requirement: The standards for internal control in the federal government require management to clearly document internal controls and all transactions and other significant events. Additionally, transactions must be authorized and executed by a person acting within the scope of their authority.

Observation: Four of eleven expense reports tested were not signed by the employee or their supervisor.

Cause: Expense reports were not signed due to oversight by staff.

Effect: Expense reports that are not signed or approved increase the risk of misappropriation of funds.

Recommendation: We recommend that all expense reports be signed by both the employee incurring and the supervisor approving the expense.

PROCUREMENT REVIEW RESULTS

We determined that, with one exception, Henkels & McCoy, Inc. is meeting the applicable WIA requirements concerning the procurement systems for program years 2013-2014 and 2014-2015.

FINDING

- Requirement:** 29 CFR 97.36 (d) - if small purchase procurements are used, price or rate quotations will be obtained from an adequate number of qualified sources.
- Observation:** One of the two small purchase procurements tested was not properly sourced for multiple vendors or price quotes.
- Cause:** Henkels & McCoy, Inc does not obtain price quotes from multiple vendors for small amounts as a standard practice.
- Effect:** When small purchase procurement regulations are not followed the risk of fraud and inappropriate purchases increases.
- Recommendation:** We recommend price quotes be obtained and documented from multiple vendors for all purchases made using the small purchase procurement method.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all the areas included in our review. It is Henkels & McCoy, Inc.'s responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, remain Henkels & McCoy, Inc.'s responsibility.

Please respond to the findings detailed above, including corrective actions taken by Henkels & McCoy, Inc. no later than November 13, 2015.

We would like to thank Henkels & McCoy, Inc. for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Suzanne De Witt at (805) 781-4846 or Kerry Bailey at (805) 788-2979.

Sincerely,



James P. Erb, CPA, CICA
Auditor-Controller

Cc: Reva Bear, Department of Social Services Program Manager
Dawn Boulanger, Department of Social Services WIA Program Manager
Gladys Kintz, Department of Social Services Fiscal Manager
Sue Gretchen, Fiscal Manager, Henkels & McCoy, Inc.
Charlotte Johnson, Regional Manager, Henkels & McCoy, Inc.



500 SOUTH GRAVERS ROAD
PLYMOUTH MEETING,
PENNSYLVANIA, 19462
610-832-3611

October 29, 2015

Mr. James P. Erb, CPA
Auditor-Controller
Treasurer-Tax Collector-Public Administrator
County of San Luis Obispo
1055 Monterey Street
Room D-290
San Luis Obispo, CA 93408

RE: Fiscal and Procurement Review Final Report

Dear Mr. Erb;

Please accept the attached as Henkels & McCoy Training Services response to your September 29, 2015 letter regarding your review of Henkels & McCoy's grant financial management and procurement systems for Program Years 2013-2014 & 2014-2015.

We are acutely aware of the need and requirements of having standards that document internal controls and all transactions and other significant events. We, Henkels & McCoy, as a large private sector employer and a substantial tax payer deeply appreciate your review.

We pride ourselves in operating all of our programs under the fiscal approach of determining all associated costs are: Prudent, Allowable and Necessary, and this approach assures us of being good financial stewards of the dollars awarded to us.

We thank you for the time invested during the monitoring review and appreciate your assistance and guidance in helping us to continually improve our level of services to the County of San Luis Obispo.

If you or anyone in your office have any questions or require additional information, feel free to call me directly at your convenience. My direct line is 610-832-3611

Sincerely,

Frederick P. Sutliff, Jr
Director
Henkels & McCoy Training Services

**County of San Luis Obispo
Fiscal and Procurement Review
Final Monitoring Report
Program Years 2013-14 & 2014-15**

FINDING 1: Timesheets

Requirement:	The standards for internal control in the federal government require management to clearly document internal controls and all transactions and other significant events. Additionally, transactions must be authorized and executed by a person acting within the scope of their authority.
Observation:	Of the twenty (20) timecards tested, eight (8) were not signed by the employee's supervisor, and two were not signed by the employee.
Cause:	Staff neglected to review and approve timecards.
Effect:	When time cards are not reviewed by supervisors the risk for payroll error and fraud increases.
Recommendation:	We recommend that all timecards be signed by the employee and reviewed and signed by the employee's supervisor.
H&M Response:	In response to the timesheets not being signed by the employee or supervisor, H&M staff is taking a proactive approach to ensure each timesheet is reviewed by the supervisor and signed by the employee. Additionally, we have added an electronic reminder for each batch of timesheets submitted to minimize potential omissions.

FINDING 2: Expense Reports

County of San Luis Obispo:

Requirement:	The standards for internal control in the federal government require management to clearly document internal controls and all transactions and other significant events. Additionally, transactions must be authorized and executed by a person acting within the scope of their authority.
Observation:	Four (4) of the eleven (11) expense reports tested were not signed by the employee or supervisor.
Cause:	Expense reports were not signed due to oversight by staff.
Effect:	Expense reports that are not signed or approved increase the risk of misappropriation of funds.

PERFORMANCE has built our business . . . ®

Recommendation: We recommend that all expense reports be signed by both the employee incurring supervisor approving the expense.

H&M Response: In response to expense reports not being signed by the employee or supervisor, H&M management has reviewed the expense report processes with staff and reminded all staff to sign expense reports documents. We have also added an electronic reminder for each batch submitted to minimize errors and potential omission. If expense sheets are not signed they will not be processed for payment.

FINDING 3: Price Quotes

Requirement: 29 CFR 97.36 (d) - if small purchase procurements are used, price or rate quotations will be obtained from an adequate number of qualified sources.

Observation: One of the two small purchase procurements tested was not properly sourced for multiple vendors or price quotes.

Cause: Henkels & McCoy, Inc. does not obtain price quotes from multiple vendors for small amounts as a standard practice.

Effect: When small purchase procurement regulations are not followed the risk of fraud and inappropriate purchases increases.

Recommendation: We recommend that all price quotes be obtained and documented from multiple vendors for all purchases made using the small purchase procurement method.

H&M Response: For 29 CFR 97.36 (d) "*Methods of procurement to be followed.* (1) Procurement by *small purchase procedures.* Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than \$25,000 in the aggregate. If small purchase procurements are used, price or rate quotations will be obtained from an adequate number of qualified sources."

Microsoft Office 365 (\$99.00) was purchased directly from Microsoft, the company owner/developer of the product, which makes it is a credible source to ensure we are not purchasing pirated software. Our organization, on a corporate level performs product pricing annually on goods and services to ensure we are getting the lowest price as well as the service and delivery needs of the company as a whole. This process allows field offices to spend more time on quality service delivery and contract goal attainment. Locally, management has instituted a "price quote" process for items not covered under space costs or ordinary costs like office supplies. We are cognizant of being good stewards of Federal, State or County funds, we are always prudent with our purchases, ensuring they are allowable as well as necessary for us to carry out the quality program we proposed to provide.

To assist H&M in meeting the purchasing requirements of the County, we would like to request a copy of the small purchase procurement policy.