

U.S. Department of Labor



Employment and Training Administration

200 Constitution Avenue NW – N4716

Washington D.C. 20210

December 18, 2015

Ms. Sally Boofer
Experience Works
4401 Wilson Boulevard Suite 1100
Arlington, Virginia 22203

Subject: Financial Compliance Review of SCSEP Grant Nos. AD241881355A51,
AD255271455A51, and AD257031455A1

Dear Ms. Boofer:

The U.S. Department of Labor, Employment and Training Administration (ETA) conducted a financial compliance review of the Senior Community Service Employment Program (SCSEP) grants awarded to Experience Works. The period of the review was July 1, 2013, to June 30, 2015, and included on-site visits to the central headquarters in Arlington, Virginia, during the periods of July 13-17, 2015, and August 17, 2015.

The team involved in the July review was comprised of National and Regional Office staff and included Stephen Daniels, Deborah Galloway, Andre Morris, Connie Taylor, and Jen Pirtle. Stephen Daniels conducted a follow up visit on August 17, 2015. Preliminary exit conferences took place on July 17, 2015 at EW and again on August 6, 2015 at the ETA National Office.

The enclosed report outlines the scope of the review including the areas and systems examined while on-site. The report identifies thirteen (13) compliance findings and \$1,619,324 in questioned costs, each of which requires specific corrective action. The review team identified multiple instances of internal control weaknesses, all of which call into question the ability of the organization to be a steward of Federal funds. Please submit a response to the Regional Office within 45 days of receipt of this report.

I hope that our review has been helpful to you. Please express our appreciation to your staff for their cooperation and assistance during the reviews. If you have any questions, please feel free to contact Stephen Daniels at (202) 693-2881 or Deborah Galloway at (312) 596-5456.

Sincerely,



Donna Kelly
Grants Officer

cc: Nick Lalpius, Dallas Regional Office
Les Range, Atlanta Regional Office

Enclosure

Monitoring Report

Experience Works

Senior Community Service Employment Program (SCSEP)

Grant Numbers: **AD241881355A51**, **AD255271455A51**, and **AD257031455A1**

Issued on December 18, 2015

eta

UNITED STATES DEPARTMENT OF LABOR
EMPLOYMENT AND TRAINING ADMINISTRATION

EXECUTIVE SUMMARY

The U.S. Department of Labor, Employment and Training Administration (ETA) conducted a financial compliance review of three Senior Community Service Employment Program (SCSEP) grants awarded to Experience Works (EW). The period under review was July 1, 2013, to June 30, 2015. On-site visits were conducted at the central headquarters in Arlington, Virginia, during the period of July 13-17, 2015, and August 17, 2015. The review team had also requested and received additional information and documentation that extends beyond the on-site visit dates and that information has been incorporated into this report.

The purpose of the review was to attest to the compliance of EW's management of three National SCSEP grants under financial and administrative requirements governing the grants and outlined in the Office of Management and Budget (OMB) Circulars (2 CFR Part 230), Uniform Guidance (2 CFR Part 200 and 2 CFR Part 2900), Federal regulations (29 CFR Parts 95 and 99), Departmental directives, and program regulations.

The reviewers found thirteen (13) non-compliance findings and \$1,619,324 in questioned costs that are listed below and further itemized in a chart located at the end of this report:

1. Depletion of the Employee Annual Leave Fund (EALF)
2. Purchase of a company (Swift Technologies) and payment of its operational expenses
3. Unallowable purchases for food, entertainment, lobbying, personal use services and goods
4. Unallowable travel expenses
5. Poor equipment and computing devices management
6. Inconsistent application of fringe benefits
7. Material internal control deficiencies
8. Lack of competitive procurements
9. Funds used for unauthorized purposes
10. Faulty cash forecasting
11. Poor cash management
12. Unallowable costs in the indirect cost pools
13. Incomplete submission of FFATA reports.

2 Experience Works – SCSEP Financial Compliance Review

Items of costs that did not meet the tests of allowability or allocability have been identified as questioned costs. Costs that also did not meet the prudent person standard of reasonableness were identified as questioned costs. Costs that are questioned may be subject to repayment unless sufficient supporting documentation is provided and accepted. Such documentation will be required from EW to support these costs as allowable, reasonable, and allocable to the SCSEP national grants.

All findings and corrective actions outlined in this report require a response from EW to the ETA Dallas Regional Office within 45 days of receipt of this report. It is ETA's expectation that EW will develop corrective action plans and submit the necessary supporting documentation to address these findings and questioned costs.

3 Experience Works – SCSEP Financial Compliance Review

REVIEW SCOPE

Primary Period under Review

July 1, 2013, through June 30, 2015

Some findings are based on a timeframe that may have started prior to or after the period of review but impact the selected sample of transactions.

Site Visited

Experience Works, Arlington, Virginia

ETA Reviewers

National Office Staff

Stephen Daniels

Deborah Galloway

Jen Pirtle

Regional Office Staff

Andre Morris

Connie Taylor

Dates of Exit Conferences

July 17, 2015, and August 6, 2015

Program Reviewed

Senior Community Service Employment Program (SCSEP)

Purpose

Evaluate EW's management of the aforementioned grants to ensure compliance with financial and administrative requirements as defined in the applicable OMB Circulars, Federal regulations, and Departmental directives. In order to make the above assessments, the review team conducted the following: interviewed staff, reviewed participant and financial files, examined policies and procedures, tested transactions, and reviewed board meeting minutes.

4 Experience Works – SCSEP Financial Compliance Review

A sample of transactions were selected prior to the team’s arrival and, during the review, additional items were requested due to the frequency of evidentiary deficiencies such as lack of supporting documentation or evidence of allocability, reasonableness, and allowability. In order to understand the internal control environment, the review team examined the four key components of a transaction: initiation, authorization, recording, and reconciliation.

MONITORING REVIEW TOOL

The review team used ETA’s Core Monitoring Guide as a primary tool for conducting the review. The following objectives and areas were covered:

Core Activity 2: Program and Grant Management System

Objective 2.1: Administrative Controls

Objective 2.2: Personnel

Objective 2.3: Civil Rights

Objective 2.5: Match and Leveraged Resources

Objective 2.6: Equipment

Objective 2.7: Procurement

Objective 2.8: Audit and Audit Resolution

Objective 2.9: Reporting Systems

Objective 2.11: Facilities and other capital assets

Objective 2.12: Intangible property

Core Activity 3: Financial Management Systems

Objective 3.1: Budget Controls

Objective 3.2: Cash Management

Objective 3.3: Program Income

Objective 3.4: Cost Allocation

Objective 3.5: Allowable Costs

Objective 3.6: Internal Controls

Objective 3.7: Financial Reporting

Objective 3.8: Fund Availability

Objective 3.9: Cost Classification

5 Experience Works – SCSEP Financial Compliance Review

The review team also examined the following areas and systems:

- a. Accounting system (Lawson) and accounts payable system (Expense Watch)
- b. Audit reports and management letters
- c. Board meeting minutes
- d. Budget controls
- e. Cash management - forecasting, bank reconciliations and bank statements
- f. Charitable contributions
- g. Cost coding, posting, and classification
- h. Credit card purchases
- i. Equipment and computing devices
- j. Facilities and leases
- k. Financial reporting and systems
- l. Indirect cost rate agreement and periodic allocation of indirect costs
- m. Insurance plans
- n. Internal control processes and procedures
- o. Information Technology (IT) maintenance and service agreements
- p. Match - tracking and reporting
- q. Payroll systems - ETime (employees) and Kronos (participants)
- r. Personnel and fringe benefits
- s. Procurement methods and process
- t. Office supplies
- u. Telecommunication expenses
- v. Travel
- w. Unrestricted revenue account and expenses

The review team conducted a limited examination of EW's unrestricted revenue account including its charitable contributions in order to gain a better understanding of the interrelationship of these two activities to the SCSEP grants.

Core Activity 2: Program and Grant Management Systems

Finding 1. Depletion of the Employee Annual Leave Fund.

Questioned costs: \$1,156,330

EW staff informed the review team that it was facing significant cash shortfalls and had depleted nearly all of the funds in the Employee Annual Leave Fund (EALF), which is a separate money market investment account. The approved budget for the National and State grants includes salaries and fringe benefits of which the cost of annual and sick leave are built into it. As the employee's accrue leave, a compensated absence liability is established and grant funds are deposited into the EALF. EW has indicated that the EALF is not subject to its creditors and considers it part of its unrestricted reserve account. The reserve in the EALF is supported with National and state grant funds.

The significant cash shortfalls that took place at the end of June 2015 occurred because staff prepared erroneous budget management reports and managers ignored or overrode certain internal control measures that would have prevented this situation. This is not the first time that EW has faced significant shortfalls; it had experienced shortfalls in 2012 and 2014. The most recent situation leading to the depletion of the EALF in 2015 is further outlined in the 'Assessment and Findings – Organizational Solvency, Stability, and Sustainability Report' dated July 14, 2015. Additionally, board members were aware of all three instances and did not provide adequate guidance or direction to prevent the most recent situation from happening. EW transferred \$356,300 on July 30, 2014, and \$800,030 on July 7, 2015, from the EALF to the EW operating checking account, resulting in an ending balance of \$1,283 as of July 31, 2015. The review team is questioning \$1,156,330 in recent withdrawals from EALF to cover agency wide operational expenses.

It is also noted that in at least one earlier occasion, funds in the EALF were withdrawn to cover the agency's cash shortfalls. Based on the records provided to the review team, approximately \$1.2 million was withdrawn from April 2012 to June 2012, leaving an ending balance of \$239,000 as of June 30, 2012. Even though the \$1.2 million withdrawal was returned to the EALF fund, the review team is unable to determine if Federal funds were used to replenish the account. EW must provide the review team with documentation that non-Federal funds were used to pay back the EALF during 2012. These costs will not be questioned until such documentation is provided.

7 Experience Works – SCSEP Financial Compliance Review

Title 29 CFR Part 95.21(b) (3) and Title 2 CFR Part 200.302(b) (4) require that a grant recipient establish a financial management system providing for the “effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.” Both 29 CFR Part 95 and 2 CFR Part 200 also requires a comparison of expenditures with budget for each Federal award.

The withdrawal of nearly \$2.35 million from the EALF during three separate occasions over the course of a three year period highlights the concern that EW does not have proper internal controls or budgetary management processes in place.

Required Action: EW must outline its restitution plan to repay the EALF or to make the EALF whole again for the 2014 and 2015 withdrawals. For the 2012 withdrawal, EW must provide documentation that non-Federal funds were used to fully restore the EALF. If such documentation cannot be provided, costs tied to the 2012 restoration of the EALF will be questioned. The restitution plan must include processes that will prevent another occurrence in which EW must cover cash shortfalls using the EALF. Such steps must identify the non-Federal resources that will be used to replenish the account. Additionally, EW must establish processes and written procedures that will prevent improper fund usage in the future. Such policies and procedures should include written guidelines for both staff and Board members. EW is asked to submit copies of the timeline and any new processes and written procedures as part of its response to this report.

Finding 2. Purchase of a company (Swift Technologies) and payment of its operational expenses.

Questioned Costs: \$356,386

The review team has found evidence that on or after February 28, 2014, EW used EALF funds to purchase a software company, called Swift Technologies for \$248,000. Additionally, grant funds were used to pay for this company’s operational expenses such as contracted staff and IT related expenses totaling \$108,386, either through direct charges or through the allocation of indirect costs. The use of grant funds to purchase Swift Technologies and its operational expenses in the amount of \$356,386 are unallowable.

8 Experience Works – SCSEP Financial Compliance Review

Title 29 CFR Part 95.21(b) (3) and 2 CFR Part 200 (b) (4) requires that a grant recipient establish a financial management system that provides for the “effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.”

The recently terminated Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of EW are the registered agent and officers of Swift Technologies. Both individuals also had signatory authority and administrative control of the bank account for this company. Documents provided to the review team also show that the CEO and Chief Operating Officer (COO) were expected to spend 10% of their time working for Swift Technologies. Based on the payroll records, 100% of the CEO and COO’s salaries were either directly charged to grant funds or placed in indirect cost pools which were allocated out to the grants. The review team was unable to quantify how many EW staff persons were working on Swift Technologies activities since payroll records indicate that all salaries were being paid out of Federal and State grant funds. There were no payroll records for Swift Technologies.

This company is also located in the same office space as EW. EW staff worked on activities tied to Swift Technologies that included the issuance of subscription services to other SCSEP grants. SCSEP grants were billed and charged for services provided by Swift Technologies in the form of an annual subscription. Swift Technologies, having already been illegally purchased with federal resources also charged \$50,000 in annual subscriptions to the SCSEP grants and had recently billed the SCSEP grant \$70,000 for additional subscription services; which at the time of the review had not yet been paid.

Required Action: EW must provide a restitution plan to return \$356,386 to the SCSEP grants for expenditures incurred to acquire and operate Swift Technologies. EW must also outline steps in which it will separate the duties and functions of Swift Technologies from EW staff that work on or support the Federal and State grants. Additionally, EW must establish written policies outlining these steps and provide training on these new policies to all staff. Lastly, EW must demonstrate what services were received by EW in consideration of the \$50,000 and the \$70,000 invoices billed to the national SCSEP grants. EW must submit the documentation as part of its response to this report. Failure to fully document these subscription costs as allowable expenses will result in these charges also being disallowed and subject to re-payment.

9 Experience Works – SCSEP Financial Compliance Review

Finding 3. Unallowable purchases for entertainment, lobbying, food, personal use services and goods.

Questioned Costs: \$ 28,165

The review disclosed that company-issued credit cards are routinely used by employees to pay for food, entertainment, lobbying related activities, and personal use goods and services. The credit card charges amounted to \$28,165 in unallowable costs to the Federal grants. The review team reviewed the following documents that were provided by EW: 'Title V Draw Down Funds Requests', 'Detailed GL of SCSEP grant' files, 'CC (credit card) Transaction Detail' worksheets, 'Indirect Cost Pools' files, and the 'Indirect Costs Assessment' files.

The review disclosed that the CEO had charged nearly \$1,032 in iTunes purchases over a two year period to ETA Federal grants. The review team considers these purchases as entertainment items.

Title 2 CFR Part 230, Appendix B item 14 and 2 CFR Part 200.438 state that costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs are unallowable.

The review team also noted EW made a payment in March 2015 of \$1,825 to become a sponsor for the National Legislatures Conference which includes lobbying activities on its planned agenda.

Title 2 CFR Part 230, Appendix B, item 25 and 2 CFR Part 200.450 states that lobbying and activities tied to lobbying are unallowable.

The use of federal program funds to purchase meals for board members and staff meetings generally fall outside the reasonableness and prudent person standards. The review team identified \$9,594 in which grant funds were used to purchase food and drinks for the benefit of the board members and employees. Credit card charges by employees routinely showed the purchase of lunches and meals. Single serving coffee pods were also purchased for the benefit of employees at the central headquarters on a monthly basis for nearly \$900 from November 2013 through May 2015. These costs were also incorrectly classified as office supplies.

10 Experience Works – SCSEP Financial Compliance Review

Title 2 CFR Part 230, Appendix A and 2 CFR Part 200.403 state that factors affecting allowability of costs include that to be allowable under an award; costs must meet the following general criteria; be reasonable for the performance of the award and be allocable thereto under these principles. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

The review also disclosed the frequent purchasing of items for personal use such as flower arrangements, edible arrangements (fruit bouquets), hair salon, and nail salon visits totaling \$6,731. Payments were also made to an organization to increase the ‘personal brand’ of the CEO at a cost of \$2,556 and during June 2015, the CFO purchased 600 custom portfolio binders at a cost of \$6,245.

Title 2 CFR Part 230, Appendix B, item 19 and 2 CFR part 200.445 state that “goods or services for personal use of the organization’s employees are unallowable regardless of whether the cost is reported as taxable income to the employees.”

EW informed the review team that unallowable expenses were transferred to the unrestricted revenue account and paid for using unrestricted revenue funds. The review team found this to be incorrect. EW did not have sufficient funds in its unrestricted revenue account to pay for these costs. The review team examined reports for the last two years that reflect an operating deficit of \$319,000 in its unrestricted revenue account. Essentially, EW is recording unallowable expenses for entertainment, lobbying, food, personal use services and goods as liabilities to the unrestricted revenue account but using the assets or funds of the Federal grants to absorb these liabilities. Many of these unallowable costs are also placed in the indirect costs pool and classified as ‘other URO (unrestricted) expenses’ or ‘supplies –office’ which are then allocated to the National and State grants. These costs have been incurred on the credit cards and payments have been made to cover these unallowable costs using cash from the SCSEP national grant. EW must substantiate through source documentation its claim that the liabilities of the unrestricted fund account were paid with unrestricted funds and not with Federal dollars.

11 Experience Works – SCSEP Financial Compliance Review

Failure to supply documentation which must then be approved by ETA will result in EW being required to repay the full amount of questioned costs.

Required Action: EW must review all credit card accounts and charges made by all employees during the period under review to ensure that all costs contain documentation to support its allowability and allocability to the grants. EW must provide proof that non-Federal resources have been obtained and applied towards costs determined to be unallowable. In addition, for unallowable costs, general ledger (and sub ledger where applicable) entries must be provided to support that charged cost have been reversed out of federally charged costs. Documentation must be provided to support the allowability of each charge as part of your response to this report.

Finding 4. Unallowable travel expenses.

Questioned Costs: \$32,463

The review disclosed that EW improperly charged travel expenditures in the amount of \$32,463 and did not properly document these costs as allowable, reasonable, or necessary, as required by 2 CFR Part 230.

Title 2 CFR Part 230 Cost Principles for Non-Profit Organizations (OMB Circular A-122) and Title 2 CFR Part 200 governs the allowability of costs charged to federal grants by non-profit entities. Title 2 CFR Part 200.403 and OMB Circular A-122, Appendix A identify factors affecting allowability of costs. Costs must meet the following general criteria:

- (a) Be reasonable for the performance of the award and be allocable thereto under these principles;
- (b) Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items;
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.

During the on-site review, the review team noted several trips taken by the CEO using first class airfare, airfare for her pet, pet hotel fees, and unreasonably high car rental expenses. Car rental fees for the CEO ranged from \$245 a day to \$6,300 in a two week period. Many of these car rentals took place locally or near the central headquarters.

12 Experience Works – SCSEP Financial Compliance Review

The review team also noted that the CEO submitted travel vouchers for reimbursement of meals and mileage that she had charged to the company credit card, thus charging the grant twice for these costs as well receiving payment for costs that she had not incurred. EW must repay these funds. EW's travel policy requires that all trips by the CEO must be approved by the Board. In our review of the board meeting minutes, it is clear that many of her trips were not approved. In some trips, the CEO indicated that she was paying out of pocket for the trip or that unrestricted revenue funds were covering the costs, however the review team could not find any evidence to support these statements and in fact found that the unrestricted revenue fund was operating at a \$319,000 deficit.

The use of first class travel is not isolated to the CEO, the COO and the Director of Program Development also took first class travel. Business select travel was also provided on occasion to board members.

Many trips taken by employees and board members included airfare and hotel costs that appear to exceed the best available fare or hotel rate. EW does not have a clear travel policy on airfare and hotels. EW was unable to provide evidence of price comparisons and that the purchase of higher priced airfares or hotel rates were due to 'immediate need'. The review team noted several 'no show' hotel charges for missed cancellations and a duplicate payment to a hotel that was posted and charged to two SCSEP (AD241881355 and AD2552714455) grants on June 30, 2014 and November 30, 2014.

Required Action: EW must review the travel expenditures charged to the grants during the period of review and validate that the cost of these trips were reasonable, necessary, and allocable to the Federal grants. EW must install processes and written procedures that provide oversight in the use of the company credit card in conjunction with travel vouchers. Additionally, EW must establish a written travel policy outlining the guidelines for securing hotel rooms, car rentals, and airfare to achieve the most advantageous pricing. Finally, EW must demonstrate that all employees who are assigned credit cards are fully trained on the written travel policies and procedures. Such documentation must be provided as part of your response to this report. Failure to supply documentation which must then be approved by ETA will result in EW being required to repay the full amount of questioned costs.

13 Experience Works – SCSEP Financial Compliance Review

Finding 5. Poor equipment and computing devices management.

Questioned Costs: \$21,722

The review disclosed that several computing devices such as iPhones, iPads, and Mac Book Pros valued at \$27,722 and purchased using Federal grant funds remained in the possession of ex-employees.

29 CFR Part 95.21(b) (3) and 2 CFR Part 200.302(b) (4) require that a grant recipient establish a financial management system that provides for the “effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.” EW does not have effective controls in place to safeguard assets paid for using grant funds.

These devices remained in the possession of the CEO, COO, and CFO after their employment was terminated shortly after the completion of our on-site review. The recovery of these items prior to their termination had not taken place and the total value of these items equals \$21,722.

EW does not have a written policy in place to address the handling of computing devices such as cellular phones, tablets, and laptops assigned to staff. Although these items may not be considered equipment and thus the Federal requirements prescribing inventory and tracking are not required, it would be prudent to install such control mechanisms that track, inventory, and collect these items from employees at the central and field offices especially with the volume of purchases being made and their high staff turnover rate.

Required Action: EW must conduct a complete review and report the status of all computing devices purchased and issued to staff that have been released or terminated. EW must also update its employee handbook and administrative policies to address the issuance, safeguarding, and collection of computing devices. EW must establish a process and procedure to provide effective control over these computing devices and provide copies to the Regional Office. Such documentation must be submitted as part of your response to this report. Failure to supply documentation which must then be approved by ETA will result in EW being required to repay the full amount of questioned costs.

14 Experience Works – SCSEP Financial Compliance Review

Finding 6. Inconsistent application of fringe benefits.

Questioned Costs: \$24,258

EW does not consistently treat or apply its fringe benefits across employee classes and offices. EW provided the CEO with \$24,258 in additional fringe benefits that cannot be properly supported or justified.

Title 2 CFR Part 230 Appendix B, item 8 and Title 2 CFR Part 200.430 requires that total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Federal and non-Federal activities.

EW lacks a personnel policy on employee loans; yet, the CEO received three loans from January 2015 through June 2015. The CEO was given an advance of 160 hours in annual leave on January 9, 2015, and June 30, 2015, equaling \$12,308 which should have been taken from the Employee Annual Leave Fund (EALF) and a general loan on May 18, 2015 in the amount of \$11,950 for a cumulative amount of \$24,258. The review team had examined the bank statements for the EALF from January 2015 to June 2015 and could not find any evidence that the two loans issued on January 9, 2015 and June 30, 2015 were repaid or in the process of being repaid.

The issuance of severance payments is also not consistent with EW's personnel policies. The review team noted one individual receiving six months of severance for less than a year of employment service. EW's written severance policy indicates that one week of salary would be paid out for each year of service.

The review team also identified those fringe benefits such as subsidized parking was inconsistently being applied between central headquarters and field staff. In addition, the review team noted that EW does not apply the employees' cellular telephone reimbursement benefit on a consistent basis. In some instance, EW was reimbursing employees not only for cellular telephone service but for their mobile internet data package as well. The review team examined numerous cellular phone companies' invoices in which seventeen (17) employees had two or more phone numbers assigned to them.

15 Experience Works – SCSEP Financial Compliance Review

The invoices also listed several phone numbers and services that were not tied to any employee or were identified as ‘unassigned’. The handling and payment of cellular and data services for staff persons is ineffective and is prone to mismanagement and unnecessary expenses.

Required Action: EW must conduct a complete review of all outstanding loans and cellular data services charged, or being paid for, to ensure the phone numbers and services are reconciled to employees. All unnecessary costs such as duplicate or ‘unassigned’ cellular device phone numbers or cellular data plans must be eliminated. The results of the review must be submitted as part of your response to this report. Additionally, EW must update its employee handbook and its fringe benefits policies to ensure such benefits are made available to all employees and are treated consistently among staff at the central headquarters and field offices. This update must address the payment of parking, the monthly reimbursement of an employee’s cellular phone and/or the direct payment of the cellular phone devices, severance payments, and employee loans. A copy of the policy must be provided and the status of the outstanding loans must be submitted as part of the response to this report. Failure to supply documentation which must then be approved by ETA will result in EW being required to repay the full amount of questioned costs.

Finding 7. Material internal control deficiencies.

The on-site review disclosed that EW does not have a system of internal controls or an effective control environment in place to provide accountability or reasonable safeguards over Federal grant funds.

Title 29 CFR Part 95.21 and Title 2 CFR Part 200.302 establishes seven (7) guiding principles governing the financial management of Federal grants, one of which requires effective control over and accountability for all funds, property and other assets.

Internal controls, often referred to as management controls, in the broadest sense include the plan for organization, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. Internal controls also serve as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, and violations of laws, regulations, and provisions of contracts and grant agreements.

16 Experience Works – SCSEP Financial Compliance Review

The review team noted the following material internal control weaknesses:

- Less than arm's length arrangements;
- Insufficient segregation of duties;
- Lack of supporting documentation;
- Absence of budgetary control mechanisms;
- Lack of transparency in the classification of costs;
- Lack of adherence to prudent person rule and reasonableness standards; and,
- Frequent staff turnover.

The less than arm's length arrangement between EW and Swift Technologies interferes with the sound operation of the programs, and the degree of separation between the two is insufficient and lacks transparency.

The review team noted that EW had an insufficient separation of duties in the critical control functions of initiation, authorization, recording and reconciliation of grant funds. The team also noted limited governance and insufficient oversight by members of the Board that allowed the purchase of the Swift Technologies Company and agency-wide cash shortfalls in 2012, 2014, and 2015. Board meeting minutes also indicate members' acceptance of numerous employee and participant settlements, again showing a pattern of poor governance by the Board.

The review team noted that any budget or budget control mechanisms in place to control spending at the central headquarters are ineffective. Close to 30 employees had use of a company issued credit card that allows them to make purchases without obtaining authorization or prior approval. The recent cash shortfalls in the last three years highlight the poor management of grant funds by key managers and board members.

Numerous transactions sampled during the review did not contain sufficient supporting documentation such as receipts, invoices, or evidence of purpose or benefit to warrant the allocation of such expenses to the grants. In some transactions, expenses that clearly benefited Swift Technologies and provided no benefit to the grants were paid using grant funds.

Expenditures were also misclassified or coded to cost categories not associated with that particular function or service. The review team found that web hosting services for Swift Technologies were classified or coded as 'supplies - office' in the general ledger.

17 Experience Works – SCSEP Financial Compliance Review

Additionally, flowers and coffee purchased for staff at the central headquarters office were also incorrectly classified as ‘supplies – office’ in the general ledger. In each of these cases, it appears that ‘supplies-office’ is the resting place for all questionable or unallowable costs. EW does not have a uniform method or policy to describe how costs are to be coded to the general ledger.

Without an accurate depiction of costs, EW’s financial statements and general ledger for grant activity reports do not accurately reflect or fairly present the financial position of the National SCSEP grants or the organization. Third party users of these reports such as the Federal Grant Officer or Federal Project Officer are making decisions that are based on materially misstated or misleading information.

Further compounding the material deficiencies in its control environment is the frequent staff turnover and the willful disregard of rules by key members of the management team. The CEO routinely initiated personnel actions to release or terminate the employment of several staff persons over the course of two years and cited the ‘lack of work’ or ‘reduction in force’ as reasons for the terminations. However, as soon as a staff termination was issued, a new person was hired shortly thereafter. The routine habit of laying people off has resulted in several lawsuits including discrimination claims that resulted in additional cash settlements. The review team did not find any personnel policies that describe or outline the use of cash settlements for ex-employee lawsuits. Without evidence that such settlements were authorized within their policies and allowable under the administrative provisions of the applicable OMB Circular applicable during the settlement, these costs will be questioned.

Required Action: EW must immediately take action to ensure that Federal grant funds are properly safeguarded and accounted for in accordance with the requirements of the program and the applicable Federal regulations 2 CFR Part 200. EW must install immediate measures or processes to streamline personnel practices. EW must identify the number and amounts of each cash settlement paid out to ex-employees for the period of our review. EW must provide evidence that these costs were authorized under their personnel policies and allowable under the applicable OMB Circular in effect at the time of each settlement. If such information cannot be obtained, these costs will be questioned. EW must also immediately ensure that no additional Federal funds are used to support the salaries, efforts, overhead, or activities of Swift Technologies. The timeline and steps that EW intends to take to remedy the weaknesses in its internal control environment must be submitted as part of your response to this report.

18 Experience Works – SCSEP Financial Compliance Review

Finding 8. Lack of competitive procurements.

Through the review of documents and board meeting minutes, the review team has concluded that the procurement of the following goods and services lacked full and open competition:

1. Central headquarters' building lease
2. Health insurance providers
3. Health insurance administrator
4. Insurance brokerage services
5. Cellular phone services
6. Internet web hosting services
7. IT maintenance and service contracts
8. Payroll processing and employer payroll tax preparation
9. Bank and credit card services

29 CFR Part 95.40 and 2 CFR part 200.319 state that all recipients shall establish written procurement procedures which shall provide for, at a minimum, established requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals, and that all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.

EW was unable to clearly demonstrate that open and competitive procurement practices were followed. The costs of many of the items and services listed above were unreasonable and not at competitive rates or rates in which similar sized organizations would pay. Through the examination of Board meeting minutes, it was disclosed that the insurance broker commissions of one agent totaled nearly \$100,000 or more in a given year which appears to be excessive.

The review team also did not find written policies that were consistent with Federal regulations that describe the procurement methods, processes, and code of conduct guidelines. At a minimum, procurement policies must address the following:

19 Experience Works – SCSEP Financial Compliance Review

Procurement methods: Written policies must be in place to address informal and formal procurement methods to include following:

- a. Micro purchases
- b. Simplified acquisition or small purchases
- c. Professional services,
- d. Formal procurements above the simplified acquisition threshold
- e. Sole source or non-competitive procurements

Procurement Process: The process for formal procurements must be conducted in the following phases. Some steps may take place concurrently with others, but they must ensure an open and transparent process that is free of apparent and real conflict of interests.

- a. Planning Phase
- b. Release and Evaluation Phase
- c. Negotiation and Selection Phase
- d. Implementation Phase
- e. Closeout Phase

The review also disclosed the events that took place leading up to the change in insurance brokers that do not support a competitive procurement process and are not consistent with the written code of conduct and competition requirements at 29 CFR Part 95.42, 29 CFR Part 95.43, and Title 2 CFR Part 200.318(c)(1). Non-competitive procurement actions were taken to obtain the services of a new insurance broker.

Through the review of board meeting minutes, the reviewers identified a number of improper actions taken by Board members. Contained in the Board meeting minutes dated June 24, 2014, the CEO had met a person who owned an insurance company and was a “wealthy individual who often donated a lot of money.” The information was presented to the Board because the CEO had requested a change in the company’s insurance brokerage firm to this individual’s company. The Board needed to approve this change; however, the switch to this new company had already taken place prior to the Board meeting.

20 Experience Works – SCSEP Financial Compliance Review

The review team obtained documents titled “Experience Works - Broker of Record Change” dated May 15, 2014, that notified the existing insurance brokers that the new company would be the Broker of Record immediately. This letter was sent out nearly a month before the Board meeting.

Records shared with the review team indicate that this new insurance company made a pledge to provide a charitable contribution in the amount of \$75,000 to EW on November 2014. It is unclear if the contribution was ever made and if it was, the accounting records do not reflect the donation. In April 2015, the Company made a charitable contribution in the amount of \$6,250. The review team looked back at the charitable contribution records as far as 2009, but there was no record that this insurance company ever made a charitable contribution to EW before receiving EW’s business. It appears that these charitable contributions were tied to obtaining EW’s business.

29 CFR Part 95.42 and 2 CFR Part 200.318(c) (1) also state that, “[t]he recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.”

By not instituting Federal standards on procurement procedures, EW reduces the overall effectiveness of Federal funds when such funds are used to purchase items or services without full and open competition.

Required Action: EW must submit a timeline in which a competitive procurement will take place for the services listed above. Additionally, EW must provide documentation to support the expenses already incurred for these services as reasonable and competitive. Such evidence should include a cost and price analysis for items 1 through 9 listed above to ensure that the prices being paid are of a competitive and reasonable nature. Any award which fails to comply with these requirements shall be re-procured in accordance with the requirements established by Federal regulations and costs in excess of competitive pricing may be identified as questioned costs. EW must provide a copy of an updated procurement policy that outlines the procurement process, procurement methods and written codes of conduct as described above.

21 Experience Works – SCSEP Financial Compliance Review

Finally, EW must provide documentation to support that each person involved in procurement at any level has been provided training on the approved procurement policies.

Finding 9. Funds used for unauthorized purposes.

The reviewers disclosed that funds for the National SCSEP grants are being requested and drawn from Payment Management System (PMS) account to temporarily cover the expenses of other State funded grants and the agency's unrestricted fund account.

29 CFR Part 95.21(b) (3) and 2 CFR Part 200.302(b) (4) require that a grant recipient establish a financial management system that provides for the effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

During the on-site review, the team examined several PMS cash draw requests for 2014 and 2015. Each cash request included a general ledger report itemizing expenses, accruals, and prepayments for numerous business units. The cash requests included business units for the unrestricted fund account and Title V state grants from Missouri, Montana, Nebraska, North Dakota, Oregon, and Wyoming. A cash request made on or near June 13, 2015, for \$3,055,314 included costs and cost projections for other business units totaling over \$597,642. Funds contained in the PMS account must be used only for authorized purposes and applied only to the business units assigned to the National SCSEP grants which are shown as 101 and 102 in EW's chart of account (business) units.

2 CFR Part 230 Appendix A and Title 2 CFR Part 200.402 states that the composition or total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits.

EW indicated that because of the timing issues while waiting for reimbursement from States, and the lack of other available resources such as unrestricted funds to cover other expenses, EW used the funds from the PMS account to cover these expenses. Although subsequent PMS cash draws are adjusted to reflect recent reimbursements from the States, EW perpetuates this Federally unallowable practice by continuing to request National grant funds to support new activities for business units that assigned to State grants or the unrestricted fund account.

22 Experience Works – SCSEP Financial Compliance Review

Required Action: EW must provide a timeline outlining the steps to discontinue this practice and its reliance of National SCSEP funds to support its other programs. EW must implement procedural changes to make the cash request process exclusive to the business units for which the funds were awarded. As part of its response to this report, EW must submit copies of the timeline and its updated cash request policy as part of your response to this report.

Finding 10. Faulty cash forecasting.

During the examination of the PMS cash requests, the reviewers identified three items that are not consistent with the definition of accrued expenditures and the effective control over grant funds, thus making the cash forecasting process faulty in its projections.

29 CFR Part 95.2(a) and 2 CFR Part 200.24 summarizes accrued expenditures as charges incurred by the recipient during a given period requiring the provision of funds for: (1) Goods and other tangible property received; (2) Services performed by employees, contractors, subrecipients, and other payees; and, (3) Other amounts becoming owed under programs for which no current services or performance is required.

The first item is the monthly accrual of auditing services ranging from \$3,000 to \$8,041. The accrual of such services cannot take place until one of the three (3) events identified in either 29 CFR Part 95.2(a) or 2 CFR Part 200.24 is met. By including these amounts in the PMS cash requests, EW is drawing down more cash than its projected immediate need. This is not consistent with 29 CFR Part 95.22 and 2 CFR Part 200.305(b)(1) that state cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

The second item was EW's prepayment of its credit card expenses. EW was requesting cash from PMS to make payments to the bank issuer of the credit cards typically ranging from \$20,000 and upwards of \$110,000 in a given month. EW was making prepayments on its credit cards before any review was conducted to ensure that costs were allowable, allocable, and/or reasonable.

23 Experience Works – SCSEP Financial Compliance Review

The review team also found numerous transactions in which employees did not submit ‘after the fact’ supporting documentation into the accounts payable system, Expense Watch to support his/her credit card charges. The reviewers found key personnel such as the CEO and COO who routinely used their credit cards for personal purposes and never submitted supporting documentation.

The reviewers also examined employee personnel files and found that many files did not contain the signed Credit Card Authorization form in which the employee agrees to only use the credit cards for authorized business purposes only. As noted earlier, many of the credit card charges were in fact for items that are not allowable, allocable, or reasonable including lobbying activities, first class travel, pet travel, unreasonable rental car charges, food purchases, refreshments, entertainment, and personal use goods and services. EW does not have adequate internal control in place as prescribed by OMB Circular A-133 Subpart A, Section 105 that states “internal control pertaining to the compliance requirements for Federal programs (Internal control over Federal programs) means a process--effected by an entity's management and other personnel--designed to provide reasonable assurance regarding the achievement of the following objectives for Federal Programs.”

The third item that the reviewers noted in EW’s PMS cash requests included a prepayment to its health insurance administrator for current health insurance claims. EW is a self-insured employer for medical insurance and has a third party administrator who authorizes, reviews, and pays its health claims. The prepayment is done before the claim is deemed eligible or allowable for reimbursement. This practice is also unsound and is not consistent with Federal requirements that require all costs to meet the tests of allowability, allocability, and reasonableness.

Title 29 CFR Part 95.21(b) (6) and Title 2 CFR Part 200.302(b) (7) require written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

Without effective internal controls in place, EW increases the risk and likelihood that the credit cards will be used for unauthorized or unallowable expenses. EW’s inadequate control environment and the actions by upper management do not provide examples of good practices.

24 Experience Works – SCSEP Financial Compliance Review

The internal control environment in EW does not adhere to 29 CFR Part 95.21(b) (3) and 2 CFR Part 200.302(b) (4) that requires effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

Required Action: EW must take the following actions: 1.) evaluate each employee’s use of the credit card and determine whether a credit card is needed; 2.) examine the transaction history of each employee for the last two years to determine if restitution or an offset of wages for use of the credit cards for personal use purchases is needed; 3.) update the credit card authorization forms for each employee assigned a credit card; 4.) contact the bank to immediately reduce the available credit on the credit cards and cancel the cards of employees with a pattern of misuse or who no longer work for EW; 5.) work with the bank to restrict the use of the credit cards to certain merchants or codes; 6.) develop procedures and written policies that contain adequate internal controls and oversight in the authorization, review, payment, and reconciliation of the credit card purchases; and 7.) review all transactions to ensure that sufficient documentation is available to support the allowability, allocability, and reasonableness all costs is maintained.

Copies of the new or updated procedures along with the results of the actions specified in items one through seven must be submitted as part of the response to this report.

Finding 11. Poor cash management.

EW does not adequately safeguard grant funds nor does it ensure that competitive pricing is obtained for banking or credit card services.

29 CFR Part 95.21(b) (3) and 2 CFR Part 200.302(b) (4) requires that a grant recipient establish a financial management system that provides for the effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

The review team examined nearly twenty-four months of bank statements and determined that EW maintains an average daily cash balance ranging from \$90,000 to \$1,477,000. EW also does not have a collateral agreement in place to ensure that the daily cash balances in excess of the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 are out of risk.

25 Experience Works – SCSEP Financial Compliance Review

The bank is also the issuer of EW's credit cards. The review team had also requested but did not receive a fully executed agreement for its banking services and credit cards services for the period under review, July 2013 through June 30, 2015.

There is no evidence that a competitive procurement was conducted to secure the banking services or credit card services. From July 2013 to June 2015, the review team noted that bank service charges ranged from \$8,000 to \$29,700 a month which over the course of a year would exceed the simplified acquisition threshold thus requiring a competitive procurement at 29 CFR Part 95.44(e)(2) and 2 CFR Part 200.302(b)(4). Without a competitive procurement, it is unclear if the bank fees are reasonable and competitive for an organization with an annual budget of approximately \$85 million.

Required Action: EW must provide a timeline in which a competitive procurement will be conducted to secure banking services and credit card services. EW must establish a written policy to monitor the daily cash balances. Additionally, EW must work with the bank to identify possible options in providing coverage for daily cash balances that exceed the FDIC limits. EW must submit copies of the timeline and its written procedures as part of its response to this report.

Finding 12. Unallowable costs contained in the indirect cost pools.

The review disclosed that specific unallowable costs were contained in the indirect costs pools that were subsequently allocated to the Federal grants.

2 CFR Part 230 and 2 CFR Part 200, Appendix IV requires that the distribution of "both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs."

These costs were also misclassified and subsequently coded to the wrong expense accounts in the general ledger. The review team noted that costs tied to Swift Technologies and lobbying activities were classified as 'other URO expenses' or 'supplies – office'.

29 CFR Part 95.21 and 2 CFR Part 200.302(b)(7) requires that accounting records include "cost accounting records that are supported by source documentation and written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award."

26 Experience Works – SCSEP Financial Compliance Review

These misclassified and unallowable expenses were posted as liabilities of the unrestricted fund account but the assets or funds of the Federal and state grants were used to pay for these liabilities.

Required Action: EW must conduct a complete review of the indirect costs pools for the period of review to ensure that all costs are correctly classified by function and activity. EW must provide the results of the review and identify the non-federal resources that will be used to repay any indirect costs charged or allocated to the grants that were for unallowable expenses. EW must update its policy addressing the classification and posting of costs in the general ledger to include the pooling and subsequent allocation of indirect costs. This information must be submitted as part of the response to this report.

Finding 13. Incomplete submission of FFATA reports.

As contained in the terms and conditions of the grant agreement and required by the Federal Funding Accountability and Transparency Act (FFATA), EW is required to report the salaries of its highly compensated executives on USASpending.gov. EW had submitted data to FFATA but the reports lack information on the top five highly compensated executives working at EW. The review team queried the website and examined all of its reports and none contained executive compensation data.

As required by 2 CFR part 170, Appendix A, (b) which states '*Reporting Total Compensation of Recipient Executives*, 1. Applicability and what to report. You must report total compensation for each of your five most highly compensated executives for the preceding completed fiscal year, if—

- i. the total Federal funding authorized to date under this award is \$25,000 or more;
- ii. in the preceding fiscal year, you received— (A) 80 percent or more of your annual gross revenues from Federal procurement contracts (and subcontracts) and Federal financial assistance subject to the Transparency Act, as defined at 2 CFR 170.320 (and subawards); and (B) \$25,000,000 or more in annual gross revenues from Federal procurement contracts (and subcontracts) and Federal financial assistance subject to the Transparency Act, as defined at 2 CFR 170.320 (and subawards).'

Required Action: EW must provide a copy of the latest report submitted to USASpending.gov that accurately reflects executive compensation data. Additionally, EW must develop a policy to ensure the timely and accurate submission of FFATA reports following the end of each quarter. A copy of the policy and the report must be submitted as part of your response to this report.

27 Experience Works – SCSEP Financial Compliance Review

Attachment 1: Chart itemizing the findings and questioned costs.

Experience Works - SCSEP Financial Compliance Review		
Finding #	Description	Questioned Costs
1.	Depletion of the Employee Annual Leave Fund (EALF)	\$1,156,330
2.	Purchase of a company (Swift Technologies) and payment of its operational expenses	\$356,386
3.	Unallowable purchases for food, entertainment, lobbying, personal use services and goods	\$28,165
4.	Unallowable travel expenses	\$32,463
5.	Poor equipment and computing devices management	\$21,722
6.	Inconsistent application of fringe benefits	\$24,258
7.	Material internal control deficiencies	---
8.	Lack of competitive procurements	---
9.	Funds used for unauthorized purposes	---
10.	Faulty cash forecasting	---
11.	Poor cash management	---
12.	Unallowable costs in the indirect cost pools	---
13.	Incomplete submission of FFATA reports	---
Total		\$ 1,619,324

28 Experience Works – SCSEP Financial Compliance Review

- End of Report -