



INTERNAL AUDIT DEPARTMENT

Audit No. 2398-A

June 28, 2024

To: Dylan Wright
OC Community Resources Director

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: OC Community Resources: Workforce Innovation and Opportunity Act Review of Concerns – Fiscal Years 2020-21, 2021-22, and 2022-23

At the request of OC Community Resources (OCCR), Internal Audit provided assurance services limited to a review of specified areas of concern related to OCCR's Workforce Innovation and Opportunity Act (WIOA) Program. Specifically, the review was requested as a result of concerns raised by a former County employee in March of 2023. On July 12, 2023, Internal Audit issued an engagement letter to OCCR agreeing to perform four objectives. Three of the objectives are covered in this review, and the fourth objective will be covered in a separate audit of OCCR's contracting and purchasing which is included in Internal Audit's Fiscal Year (FY) 2023-24 Risk Assessment and Audit Plan.

Background and Scope

WIOA is a federal program designed to help job seekers access employment, education, training, and support services to succeed in the labor market and to match employers with skilled workers. WIOA ultimately provides federal funding for State programs offering training and employment services. In California, the Governor appointed the Workforce Development Board (State Board), which is the Governor's agent, for the development, oversight, and continuous improvement of California's workforce development system. The State Board is comprised of 45 Local Workforce Development Areas, each with its own Workforce Development Board (WDB).

The California Employment Development Department (EDD) is responsible for allocating WIOA funds to the Local WDBs, who then administer WIOA funding in collaboration with local elected official(s). In Orange County, WIOA funds are administered by the Orange County Workforce Development Board (OCWDB) and Orange County Board of Supervisors (BOS). The Orange County Workforce and Economic Development Division (WEDD) serves as the administrative support to the OCWDB and is primarily responsible for administering WIOA Programs and activities in Orange County. WEDD is part of the OC Community Services Program (OCCS) which is under the OC Community Resources Department.

In response to the concerns raised by the former employee, we performed the following three objectives to ensure:



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1. Proper approval of WEDD budgets for FYs 2021-22 and 2022-23.
2. Employee timecard charges were appropriate for FYs 2021-22 and 2022-23.
3. FYs 2020-21 and 2021-22 external audits evaluated fiscal and program practices including covering the following concerns:
 - Failure to provide support for programs and services
 - Failure to provide fiscal and program oversight as the Fiscal Agent
 - Failure to ensure fiscal integrity and accountability of expenditures
 - Lack of internal controls
 - Failure to maintain proper accounting records and adequate documentation

We reviewed and evaluated policies, procedures, and controls related to these objectives, analyzed information related to budgets and employee timecards, reviewed external audit reports, and performed test work to evaluate whether OCCR employees were appropriately charging time to the WIOA Program.

This review did not include concerns outside of those specifically relating to our three main objectives, such as concerns involving Human Resources, areas with insufficient details or examples, areas to be covered by our future contracting audit of OCCR, or any areas covered by a separate performance audit which is under the purview of the County Executive Office.

Review Summary

Our review noted opportunities for OCCR and OCWDB to strengthen their processes related to the WIOA Program. For example, we noted the following opportunities for improvement:

- WEDD, in partnership with OCWDB, work with the BOS to update their memorandum of understanding (MOU) and/or bylaws to clearly establish and define roles and responsibilities including those over the budgeting process.
- OCCR management ensure OCCS and WEDD employees are trained on appropriately charging WIOA Program and administrative job codes.
- OCCR management develop policies and procedures and a chart of accounts to ensure appropriate charges are being made and differentiated between administrative vs. program and direct vs. indirect costs and that review processes are consistent.
- OCCR, in collaboration with OCCS, develop a reconciliation process to timely review, identify, and correct any misallocated time.
- OCCR management consider conducting an audit involving OCCS and WEDD fiscal and program practices, including but not limited to processes and controls over program and services support, fiscal and program governance, expenditures such as payroll, operating expenses, and cash management, and internal controls over areas such as administrative funding and cost allocation.



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In addition, we noted OCCS and WEDD staff were not always able to provide us a clear understanding and interpretation of WIOA statutes relating to our objectives throughout the course of this review. For example, in our inquiries related to OCWDB's roles and responsibilities relating to the budget process, we were given inconsistent information which contradicted WIOA guidance and statutes. As part of the WIOA Program, the EDD assigns a regional advisor to each designated local area, whose role is to provide guidance and interpretation of WIOA. OCCR should discuss all corrective actions with the WIOA Regional Advisor, legal counsel, and other WIOA subject matter experts to ensure compliance and adherence to WIOA requirements. Details of our review are included below.

Objective 1: Budget Approval

Objective

To ensure there was proper approval of OCCS/WEDD budgets for FYs 2021-22 and 2022-23.

Criteria

WIOA §107(d)(12) relates to budget and administration and indicates that the local board (OCWDB) shall develop a budget for the activities of the local board in the local area, consistent with the local plan (a comprehensive four-year plan, developed in partnership with the OCWDB and BOS) and the duties of the local board under this section, subject to the approval of the chief elected official (BOS).

Work Performed

We interviewed management and staff at OCCR, OCCS, WEDD, and Auditor-Controller (A-C) Satellite Operations, reviewed relevant budget policies and procedures, performed walk-throughs of the budget process, and reviewed other relevant items such as OCWDB and BOS meeting agenda and minutes during FYs 2021-22 and 2022-23. We also reviewed relevant portions of WIOA and related law.

Results

The OCCS/WEDD budget process for FYs 2021-22 and 2022-23 involved the OCCR Finance Services unit preparing the annual budget, the WEDD director reviewing and approving, then the OCCS Director reviewing and approving. Subsequently, this budget was submitted for further review by the senior manager over OCCR Finance and Strategic Planning before submitting to the BOS for their final approval.

In inquiries with WEDD staff, they presented us with information such as OCWDB meeting minutes, audio, and agenda packets to help us gain further understanding as it relates to OCWDB's involvement in the budget process. Our review found that funding was presented to OCWDB for FYs 2021-22 and 2022-23 as a resolution to approve recommended program funding for WIOA in that period. Specifically, the information presented was a basic framework for the planned allocation of funding by percentage to the different WIOA Programs.

The MOU between the BOS and the County Workforce Investment Board (predecessor to the OCWDB) under the Workforce Investment Act (which was replaced by WIOA) has not been updated since 2002 and does not clearly define OCWDB's or WEDD's roles and responsibilities as it relates to the budget. Further, while OCWDB has written bylaws that document the purpose



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and functions of the OCWDB and include rules for meetings and duties of its board members, there is also no mention in the bylaws of OCWDB's responsibility as it relates to the budget. Since the responsibilities of OCWDB under WIOA §107(d)(12) is somewhat vague and open to interpretation, the OCWDB and WEDD would benefit from establishing and defining clear roles and responsibilities in the MOU and/or bylaws as it relates to the budget to the extent required by law.

Objective 1 Recommendation

WEDD, in partnership with OCWDB work with the BOS to update the MOU and/or the bylaws to clearly establish and define roles and responsibilities including those over the budgeting process to the extent required by law.

Objective 2: Timecard Charges

Objective

To ensure employee timecard charges were appropriate for FYs 2021-22 and 2022-23.

Criteria

We reviewed WIOA and other guidance materials, such as the U.S. Department of Labor WIOA Desk Reference, CA Employment Development Department Directive on Allowable Costs, and U.S. Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards including 2 Code of Federal Regulations (CFR) §200.413, CFR §200.414, CFR §200.56, and CFR §200.403. Based on the guidance reviewed, costs fall into two main categories: direct costs and indirect costs. Direct costs are those costs that can be directly linked to the cost objective. Indirect costs are those costs incurred for a common or joint purpose benefitting more than one cost objective. In addition, administrative costs are generally restricted to no more than 10% of the overall grant award.

Direct and Indirect costs are further differentiated between administrative and program costs as described:

- Administrative Costs – Administrative costs are not related to the direct provision of workforce investment services, including services to participants and employees.
- Program Costs – Program costs are tied to the direct provision of workforce investment services including services to participants and employers (e.g. career services, business services for employees, and tracking or monitoring participants). They also include costs incurred for functions and activities of subrecipients, with some exceptions, and contractors charged as program costs.
- Administrative or Program Costs – Some costs can be either administrative or program costs depending on the circumstances, such as for staff who perform both administrative and programmatic functions, continuous improvement activities, and infrastructure costs.

Work Performed

We reviewed relevant WIOA guidance and materials on appropriate use of funds relating to employees' work, utilized County-wide systems data to obtain a comprehensive list and totals of employees' charges to WIOA related job numbers, and reviewed a sample of four OCCS and



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WEDD employees' (two at OCCS and two at WEDD) timecard charges to determine if their charges were appropriate in relation to their job duties and responsibilities. In addition, we interviewed the four employees and their respective supervisors to obtain an understanding of their job duties and responsibilities, their understanding of processes and procedures over job number charging, and the supervisor review and approval process of employee timecard charges. The four employees were selected based on our review of the total hours charged to WIOA related job numbers during the audit period and auditor judgment, where we focused our sample on employees who had significant charges to specific administrative and program job numbers.

Results

We noted opportunities for OCCR management to further train OCCS-WEDD employees on consistently and appropriately charging WIOA Program and administrative job codes, ensuring shared costs are allocated using an appropriate cost allocation methodology based on actual conditions, and developing policies and procedures on the appropriate use of WIOA Program and administrative job codes. Specifically:

- Charges did not appear to be appropriate based on employee's job duties and responsibilities for two (Employees A and B) of the four employees tested. For example, we noted Employee A who is a contract compliance monitor over subrecipient service providers who charged all of their time performing on-site fieldwork to program job codes and all of their time in the office to administrative job codes. Although monitoring can be considered either an administrative or program cost, depending on what is being monitored, the location of where the work is performed should not be the basis for charging program or administrative job codes. In addition, based on our interview with the employee and review of the compliance monitoring tools, the compliance monitoring work conducted contained both programmatic and administrative elements.

Employee B whose job duties and responsibilities were administrative in nature, such as providing support to WEDD staff relating to IT, inventory, office supplies, and contracts, charged time proportionally between program and administrative job codes.

- Two (Employees C and D) employees were allocating their time incorrectly, one was based on an unallowable methodology (funding amounts) and the other allocated their time based on management's direction. Employee C was splitting their time 60/40 based on budgeted estimates and not actual conditions. Employee D was also directed by management to code their hours evenly across the job numbers and the timecard we reviewed reflects the same number of hours being charged consistently to the same job numbers each day throughout the pay period.
- There was a lack of policies, procedures, and guidance related to charging time to the WIOA Program. In addition, charges appeared to be allocated based on budgeted estimates and not based on actual conditions for Employee C. As a result, it appears as though employees were not charging time spent on WIOA appropriately. As mentioned above, OCCR employees indicated they were recording their time based on management's instructions and not based on the actual work performed.



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- We noted OCCS and WEDD staff charged the wrong job code. Specifically, in one instance, there were charges of over 400 hours to a job code that should not have been used.

In addition, OCCR Accounting (A-C Satellite Operations) indicated that WEDD may have used an incorrect cost allocation methodology to prevent overage of charges to administrative budget codes resulting in potential inappropriate charges to other grants.

Objective 2 Recommendation

OCCR management:

- A. Ensure OCCS and WEDD employees are trained on appropriately charging WIOA Program and administrative job codes.
- B. Develop policies and procedures and a chart of accounts to ensure appropriate charges are being made and differentiated between administrative vs. program and direct vs. indirect costs and that review processes are consistent.
- C. Ensure shared costs are allocated using an appropriate cost allocation methodology that is based on actual conditions.
- D. Develop, in collaboration with OCCS, a reconciliation process to timely review, identify, and correct any misallocated time.

Objective 3: External Audits

Objective

To determine if external audits and reviews of WIOA for FYs 2020-21 and 2021-22 evaluated the fiscal and program practices that covered the following concerns made by the former employee:

- Failure to provide support for programs and services
- Failure to provide fiscal and program oversight as the Fiscal Agent
- Failure to ensure fiscal integrity and accountability of expenditures
- Lack of internal controls
- Failure to maintain proper accounting records and adequate documentation

Criteria

To evaluate the reliability of the external auditor reports in regards to our objective above, we referred to the Institute of Internal Auditors (IIA) International Professional Practices Framework Practice Guide “Reliance by Internal Audit on Other Assurance Providers”. Per the guidance, there are five principles to consider: purpose, independence & objectivity, competence, elements of practice, and communication of results and impactful remediation.

Work Performed

We reviewed all FYs 2020-21 and 2021-22 external audit reports and available additional supporting documentation and information, such as email correspondence, discussion with



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external auditors, and testing worksheets and workpapers. We applied the IIA standards to all external audits to evaluate whether the audits covered the concerns.

Specifically, 12 external audits and reviews were performed during the review period. Of the 12, seven were related to our objectives and included a review of fiscal and program practices but only as it relates to subrecipients contracted by OCCS/WEDD, and did not include a review of OCCS/WEDD fiscal and program practices. An additional three audits were unrelated to our objectives.

For the remaining two audits that included some OCCS/WEDD fiscal and program practices, we met with the external auditors who conducted the review to obtain a better understanding of the overall review including objectives, scope, and methodology. We also obtained and reviewed worksheet templates and tools used for the fiscal audits.

Based on our review of the materials which included correspondence and documents provided by OCCR, in addition to the discussion and review of testing templates used by the external auditor, each concern that is covered by this objective was not sufficiently covered as it relates to WIOA fiscal and program practices by OCCS and WEDD.

Results

Based on our evaluation of external audits during FYs 2020-21 and 2021-22, there is no coverage of all areas of concern that fell within the scope for Objective 3. Although subrecipient review and use of funds appeared to be sufficient, there was minimal review of OCCS/WEDD fiscal and program practices over WIOA.

Objective 3 Recommendation

OCCR management consider conducting an audit of OCCS and WEDD fiscal and program practices, including but not limited to: processes and controls over program and services support, fiscal and program governance, expenditures such as payroll, operating expenses, and cash management, and internal controls over areas such as administrative funding and cost allocation.

Review of Report

We provided OCCR management with the results of our review. As indicated in the attached response in the Appendix, OCCR agrees with the results of this review and will follow up on the recommendations contained herein. In addition, on December 13, 2023, OCCR responded to the EDD Fact-Finding and Resolution Report Incident Report 2023-CA-006 addressing all of the concerns raised by the former employee, including the ones listed in this report. OCCR will update EDD that this report has been completed.

We thank OCCR, OCCS, and WEDD management and staff for their support, cooperation, and active participation during our review. If you have any questions, please contact me at 714-834-5442.



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Other Recipients of this report:

- Members, Board of Supervisors
- Chair, Orange County Workforce Development Board
- Members, Audit Oversight Committee
- County Executive Office Distribution
- OC Community Resources Distribution
- Auditor-Controller Distribution
- County Counsel Distribution
- Robin Stieler, Clerk of the Board
- Foreperson, Grand Jury
- Eide Bailly LLP, County External Auditor

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APPENDIX: OC COMMUNITY RESOURCES MANAGEMENT RESPONSE

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Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Dear Mr. Alonso,

RE: Draft Internal Audit Report No. 2398-A

On May 22, 2024, OC Community Resources (OCCR)/OC Community Services received a copy of the Internal Audit Department's draft report for Audit 2398-A. Below please find OCCR/OCCS's response to the audit objectives and recommendations, which have been reviewed and approved by the County Executive Office.

Objective 1: Budget Approval

Recommendation:

WEDD, in partnership with OCWDB work with the BOS to update the MOU and/or the bylaws to clearly establish and define roles and responsibilities including those over the budgeting process to the extent required by law.

Management Response:

Concur and in progress. The MOU and bylaws will be updated regularly to ensure continued compliance with WIOA mandates.

Objective 2: Timecard Charges

Recommendation:

OCCR Management:

- A. Ensure OCCS and WEDD employees are trained on appropriately charging WIOA program and administrative job codes.
- B. Develop policies and procedures and a chart of accounts to ensure appropriate charges are being made and differentiated between administrative vs. program and direct vs. indirect costs and that review processes are consistent.
- C. Ensure shares costs are allocated using an appropriate cost allocation methodology that is based on actual conditions.
- D. Develop, in collaboration with OCCS, a reconciliation process to timely review, identify, and correct any misallocated time.

Management Response:

Concur and will initiate in FY 2024-2025.



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Objective 3: External Audits

Recommendation:

OCCR management consider conducting an audit of OCCS and WEDD fiscal and program practices, including but not limited to: processes and controls over program and services support, fiscal and program governance, expenditures such as payroll, operating expenses, and cash management, and internal controls over areas such as administrative funding and cost allocation.

Management Response:

Concur. An OCCS/WEDD audit related to procurement practices is anticipated in FY 24/25 and OCCR management is coordinating with the CEO's office on a performance audit.

If you have any questions related to this response, please do not hesitate to contact me.

Sincerely,

DocuSigned by:
Dylan Wright
602BB737A9184B0

6/26/2024

Dylan Wright, Director
OC Community Resources

Date

