



Internal Audit  
Department

301 W Jefferson St  
Suite 660  
Phoenix, AZ 85003

[maricopa.gov/  
InternalAudit](http://maricopa.gov/InternalAudit)  
602.506.1585

**Mike McGee**  
County Auditor

---

# Human Services Dept. – Workforce Development

April 2019

*Internal Audit Report Authorized by the  
Maricopa County Board of Supervisors*

---

<b>Report Highlights</b>	<b>Page</b>
HSD will document its processes for fulfilling its fiscal agent duties for the local workforce area.	1
HSD will strengthen procedures over service provision to ensure compliance with legal requirements.	3
HSD fulfilled its duty to provide reports, targets, and proposals to the workforce development board.	5
The governance agreement will be revised to conform more closely to legal requirements and to clarify roles and responsibilities of stakeholders.	6
The County will work to recover contract overcharges and will strengthen oversight over its vendor.	7

---

**Background**

Maricopa County participates in a federally funded grant program under the Workforce Innovation and Opportunity Act (WIOA) for providing adult and youth workforce development services within the local area. The Board of Supervisors (BOS) appointed the Workforce Development Board (WDB) to help oversee the program. The BOS and WDB developed a governance agreement (Agreement) to define the respective roles and responsibilities prescribed by the WIOA. Under the Agreement, the Maricopa County Human Services Department (HSD) serves as the career services provider, fiscal agent, and administrative entity.

During the audit, we learned of improvements that can be made by both HSD and WDB and made recommendations to each.

---

**Objectives**

Our audit objectives were to ensure that:

- HSD's controls are designed to promote compliance with key provisions of the governance agreement and the WIOA in its role as the fiscal agent.
  - HSD's controls are designed to promote compliance with key provisions of the governance agreement and the WIOA in its role as the provider for both career and youth services.
- 

**Scope**

This audit primarily focused on fiscal year 2018. We reviewed all necessary information, including laws, policies, procedures, reports, invoices, file review checklists, and meeting minutes.

---

**Standards**

This audit was conducted in conformance with International Standards for the Professional Practice of Internal Auditing.

---

**Auditors**

Susan Adams, Audit Manager, MBA, CISA  
Jenn Sigüenza, Audit Supervisor, CPA, MAcc  
Stacy Aberilla, Senior Auditor, MPA, CGAP  
Tim Carroll, Senior Auditor, MSEC, CFE  
Brenda Erran, Internal Auditor, BS

---

This report is intended primarily for the County Board of Supervisors, County leadership, and other County stakeholders. However, this report is a public record and its distribution is not limited.

We have reviewed this information with HSD management. The Action Plan was approved by Lee Ann Bohn, Assistant County Manager, on 3/28/19, Bruce Liggett, HSD Director on 3/28/19, and Patricia Wallace, WDB Executive Director on 4/5/19. If you have any questions about this report, please contact Mike McGee, County Auditor, at 602-506-1585.

## **Audit Results**

### **Issue #1: HSD as Fiscal Agent – WIOA Compliance**

**Observation:** We reviewed HSD's processes and controls relating to its role as the fiscal agent for five key requirements outlined in the WIOA. The key requirements were as follows:

- Employment and Training Activities – funds can only be expended on authorized activities
- Administrative Cost Limit – no more than 10% of allocated funds can be used on administrative expenses
- Program Year Availability – grant awards may be spent in the year awarded and one successive year
- Youth Work Experiences – at least 20% of allocated youth funds must be spent on youth work experience activities
- Out-of-School Priority – at least 75% of allocated funds must be spent on out-of-school youth

We found that adequate processes were in place to promote compliance with the above WIOA fiscal requirements. We noted that, as of September 2018, cumulative expenditures for Youth Program Work Experience activities were below the level needed to meet the WIOA minimum spending requirement by year end. However, the program activities are cyclical and management expects to monitor the requirement to ensure annual compliance.

Procedures were not formally documented for budgeting, invoice approvals, monitoring expenditures and grant requirements, and reporting of progress and trends to management. Documented policies and procedures are an important element of internal control because they help ensure compliance and consistency on an ongoing basis.

<b>Conclusion #1A:</b> HSD had adequate processes in place to promote compliance with key WIOA fiscal requirements.	
<b>Recommendation</b>	<b>HSD Action Plan</b>
None	N/A

<b>Conclusion #1B:</b> The processes for meeting key WIOA compliance requirements were not documented.	
<b>Recommendation</b>	<b>HSD Action Plan</b>
<b>1B</b> Develop written policies and procedures to help ensure compliance with the WIOA fiscal requirements, to include delineation of roles and responsibilities and processes for: (1) budgeting, (2) regular monitoring of expenditures and grant requirements, (3) regular reporting of progress and trends to the appropriate levels of management, and (4) invoice approval requirements.	Concur – completed  Fiscal and budgetary written policies and procedures, which apply to all HSD fund sources (including WIOA), have been completed and implemented.  <b>Target Date: 1/01/2019</b>

**Issue #2: HSD as Fiscal Agent – Governance Agreement Compliance**

**Observation:** We reviewed HSD’s processes relating to its role as a fiscal agent for key requirements outlined in the Governance Agreement (Agreement). We found adequate processes were in place to promote compliance with the Agreement. HSD met its obligation to: 1) prepare financial reports, 2) review, recommend, and monitor the WDB’s budget, and 3) track and monitor receipts and expenditures for WDB, career services and youth services separately.

During our review, we learned that processes were not formally documented. Documented policies and procedures are an important element of internal control because they help ensure compliance and consistency on an ongoing basis.

<b>Conclusion #2A:</b> HSD had adequate processes in place to promote compliance with its fiscal agent obligations under the governance agreement.	
<b>Recommendation</b>	<b>HSD Action Plan</b>
None	N/A

<b>Conclusion #2B:</b> The processes for meeting key governance agreement requirements were not documented.	
<b>Recommendation</b>	<b>HSD Action Plan</b>
<b>2B</b> Develop written policies and procedures to help ensure compliance with the governance agreement in its role as fiscal agent.	<p>Concur – in progress</p> <p>HSD is in progress of developing written policies and procedures and will align to Shared Governance and Multi-Function Agreement.</p> <p><b>Target Date: Within 90 days after BOS approval of the Agreement</b></p>

### **Issue #3: HSD as Service Provider – WIOA Compliance**

**Observation:** We reviewed four key WIOA requirements for providing career and youth services and found that HSD’s policies conform to WIOA and related guidance. We further reviewed HSD’s controls over compliance with these four requirements and found some areas for improvement. Our observations are described below.

#### Performance Accountability System

Performance indicators are primarily derived from data input by career guidance specialists. Accuracy is checked through supervisory review and quality control checklists. However, our review of supporting documentation indicated these processes were not always completed and the forms utilized were inconsistent. In addition, we noted there were no written procedures for data collection, input, and review requirements.

#### Youth Exception and Limitation

We reviewed HSD’s processes for complying with the youth eligibility exception and limitation and found that HSD had been miscalculating its youth exception rate and was not monitoring compliance with the eligibility limitation. Additionally, there were no documented procedures for monitoring compliance with the exception and limitation requirements.

#### Training Services Qualification

Participant training costs can only be covered with WIOA grant funds when alternative sources of available funding are insufficient. We reviewed a sample of files in the Adult and Youth programs and found that the files contained all supporting documentation.

#### Occupations in Demand

WIOA requires training services to be linked to in-demand industries or occupations. HSD’s policies conformed to WIOA guidance with regard to definitions of in-demand

sectors; however, we learned that there were no documented strategies describing how each sector will be served.

<b>Conclusion #3A:</b> HSD policies over four key WIOA provisions conform to WIOA and related guidance.	
<b>Recommendation</b>	<b>HSD Action Plan</b>
None	N/A
<b>Conclusion #3B:</b> HSD's supporting documentation for Training Services Qualification indicated compliance with WIOA requirements.	
<b>Recommendation</b>	<b>HSD Action Plan</b>
None	N/A
<b>Conclusion #3C:</b> As described in our observation, certain controls were not in place to ensure compliance with key career and youth service provider requirements.	
<b>Recommendations</b>	<b>HSD Action Plan</b>
<b>3C-1</b> Develop written procedures to help ensure accurate and complete collection and reporting of performance data, including (1) data collection and entry requirements, (2) methodology for calculating performance levels in accordance with WIOA and related guidance, and (3) review and approval prior to submission to DES or others as applicable.	<p>Concur – completed</p> <p>HSD has developed and implemented written procedures for the collection and reporting of performance data, which applies to all HSD programs (including WIOA).</p> <p><b>Target: 2/01/2019</b></p>
<b>3C-2</b> Document strategies for serving employers in each of the identified in-demand industries in accordance with DES guidance and document the performance measure for serving employers.	<p>Concur – implementation with modifications</p> <p>On December 19, 2018, the WDB approved in-demand industry sectors. The WDB will also identify in-demand occupations. After this occurs, HSD will document strategies for serving those employers. DES has not established performance measures for serving employers, so strategies for this cannot be implemented at this time.</p> <p><b>Target: 9/30/2019</b></p>

Recommendations	HSD Action Plan
<p><b>3C-3</b> Develop written procedures governing the client file review process for both supervisory and quality improvement reviews, including (1) documentation requirements, (2) a requirement to review compliance with youth participant eligibility exception, and (3) procedures for updating and disseminating the file review checklists. Ensure supervisors and the quality improvement team perform and document the required reviews.</p>	<p>Concur – in progress</p> <p>HSD is in progress of developing and implementing written procedures that are consistent for all WIOA client file reviews.</p> <p><b>Target: 9/30/2019</b></p>
<p><b>3C-4</b> Develop written procedures to help ensure compliance with the youth participant eligibility exception and limitation, including (1) data collection, (2) methodology for calculations, and (3) monitoring and reporting of compliance.</p>	<p>Concur – in progress</p> <p>HSD is in progress of developing and implementing written procedures to ensure compliance and monitoring.</p> <p><b>Target: 9/30/2019</b></p>

**Issue #4: HSD as Service Provider – Governance Agreement Compliance**

**Observation:** We reviewed HSD’s processes relating to its role as a service provider for key operational requirements outlined in the Agreement. We found adequate processes were in place to promote compliance with the Agreement and HSD met its obligation to provide operational reports and to propose service targets and operational budgets to the WDB.

<p><b>Conclusion #4A:</b> HSD provided operational reports and proposed service targets and operational budgets to the WDB, as required by the governance agreement.</p>	
Recommendation	HSD Action Plan
None	N/A

**Issue #5: Local Area Governance Agreement (Agreement)**

**Observation:** As part of our audit, we reviewed the Agreement to better understand HSD’s compliance requirements and noted it does not adequately clarify the roles and responsibilities of HSD and WDB under the WIOA. For example, the Agreement requires segregation of duties between fiscal agent and service provider roles; however, one HSD employee is a member of the service provider staff and performs tasks that could be considered the responsibility of the fiscal agent. Given HSD’s multiple roles, more specific delineation of roles and responsibilities is necessary to ensure compliance and limit confusion.

In addition, our review of the Agreement identified some gaps and inconsistencies between the Agreement and requirements of the WIOA. While most areas conform to WIOA and related guidance, there were some WIOA provisions omitted and minor language variations. We communicated the details of these issues with HSD, WDB, and the Assistant County Manager so that the Agreement can be strengthened in the future.

We noted that the Agreement does not specify the expected content and frequency for certain items HSD is required to provide the WDB, including financial and operational reports, service targets, budget utilization, and performance measures. Therefore, it was difficult to determine whether compliance expectations were met.

During the course of our review, we learned there has been no formal reconciliation of the compliance requirements under WIOA to HSD’s current policies and procedures. Significant changes in the law occurred in recent years when WIOA replaced the Workforce Investment Act of 1998. While HSD had adequate processes in place for key requirements, a comprehensive review was not performed to identify and assign responsibility for the updated provisions applicable to its operations.

<p><b>Conclusion #5A:</b> The governance agreement does not adequately clarify and delineate the roles and responsibilities of HSD and WDB, and contains some gaps and inconsistencies with the requirements of the WIOA.</p>	
<p><b>Recommendation</b></p>	<p><b>WDB Action Plan</b></p>
<p><b>5A</b> WDB should work with the BOS to update the governance agreement to conform more closely to WIOA and related guidance, and include sufficient clarification of how the parties will carry out their respective responsibilities while demonstrating compliance with the WIOA and related guidance.</p>	<p>Concur – in progress</p> <p>The WDB and CEO will amend the current shared governance agreement to address the issues cited.</p> <p><b>Target Date: Within 90 days after BOS approval of the Agreement</b></p>



<b>Conclusion #5B:</b> Expectations for the content and frequency of financial and operational reports, and service-related proposals are not clarified in the governance agreement.	
<b>Recommendation</b>	<b>WDB Action Plan</b>
<b>5B</b> WDB should update the governance agreement to clarify the expected content and frequency of financial and operational reports, and the frequency for proposal of service targets, budget utilization, and performance measures.	Concur – in progress The revised agreement will include clarification on frequency and content of reports and proposals required by the WDB from the HSD Fiscal Agent and HSD Service Provider.  <b>Target Date: Within 90 days after BOS approval of the Agreement</b>
<b>Conclusion #5C:</b> A formal reconciliation of the compliance requirements under WIOA to HSD’s current policies and practices was not completed.	
<b>Recommendation</b>	<b>HSD Action Plan</b>
<b>5C</b> HSD should identify and document all parts of the law and related guidance that are applicable to their various roles, assign responsibility for operationalizing the requirements, and delineate procedures for ensuring compliance with those provisions.	Concur – will implement with modifications HSD will document parts of the law and regulations where necessary to ensure compliance.  <b>Target Date: 9/30/2019</b>

**Issue #6: One Stop Operator Contract**

**Background:** The WDB and the BOS have contracted with a vendor to serve as the local area’s One Stop Operator (OSO), a role charged with coordinating delivery of services from multiple state and local agencies to satisfy all titles of the WIOA. HSD’s role with respect to the OSO is to process invoices for OSO services after they have been approved. We reviewed the contract as part of our examination of HSD’s accounts payable controls in its role as fiscal agent.

**Observation:** During FY 2018, the OSO invoiced and was paid \$14,786 in unallowable charges, including executive oversight, fringe benefits, overhead, general administrative, and facilities and administrative fees beyond the rates allowed by the contract terms and/or federal regulation. In addition, we found inconsistencies between invoice descriptions and supporting documentation for a few activities.

We reviewed the accounts payable controls for processing OSO invoices and found there were no documented procedures for reviewing invoices to verify services were billed in accordance with contract terms prior to approval for payment.

During the contract review, we noted there are requirements for background checks and formal performance reviews of the OSO. We found that these background checks were not verified and the formal performance reviews were not completed.

<b>Conclusion #6A:</b> The One Stop Operator charged more than allowed under the terms of its contract with the County.	
<b>Recommendation</b>	<b>WDB Action Plan</b>
<b>6A</b> WDB should work with the Office of Procurement Services to obtain reimbursement or other applicable remedy for all unallowable charges.	Concur – in progress WDB will work with OPS to obtain remedy for unallowable charges.  <b>Target Date: 6/30/19</b>
<b>Conclusions #6B:</b> There were no documented procedures for reviewing OSO invoices to verify services are billed in accordance with contract terms prior to approval for payment.	
<b>Recommendation</b>	<b>WDB Action Plan</b>
<b>6B</b> WDB should work with HSD to clarify and document the process for reviewing and approving OSO invoices to ensure accuracy and compliance with contract terms.	Concur – in progress WDB will document the process for reviewing and approving OSO invoices to ensure proper review and coordination with the HSD Fiscal Agent.  <b>Target Date: 6/30/2019</b>
<b>Conclusion #6C:</b> Formal performance reviews for the OSO were not completed and OSO background checks were not verified, as required by the contract terms.	
<b>Recommendations</b>	<b>WDB Action Plan</b>
<b>6C-1</b> WDB should conduct bi-annual performance reviews for fiscal, program delivery, and contract compliance, as required by the contract.	Concur – in progress WDB will develop written procedures governing vendor performance review and will ensure bi-annual performance reviews are completed in accordance with the contract terms.  <b>Target Date: 6/30/2019</b>

Recommendations	WDB Action Plan
<p><b>6C-2</b> WDB should verify completion of OSO background checks and fingerprint procedures as applicable.</p>	<p>Concur – completed</p> <p>WDB has verified vendor background checks and fingerprinting procedures were completed.</p> <p><b>Target Date: 11/9/2018</b></p>