

**TO: Honorable Mayor and
Members of the City Council**

**FROM: Gerald A. Silva
City Auditor**

**SUBJECT: Silicon Valley Workforce Investment
Network Audit** **DATE: April 22, 2004**

During our review of the Silicon Valley Workforce Investment Network (SVWIN), we found that in response to a 2002-03 budget shortfall of \$2,032,000 in its Regional Technologies Consortium Project Program (RE-TEC), the SVWIN developed a series of fiscal and administrative controls. In our opinion, the SVWIN's current controls and procedures are appropriate and provide reasonable assurance that the SVWIN will not experience a future RE-TEC budget shortfall. However, the SVWIN still needs to fully resolve its remaining RE-TEC payment obligation of \$537,383 and may exceed its ten percent administrative expense cap of \$1,318,710 by about \$129,000 in 2003-04.

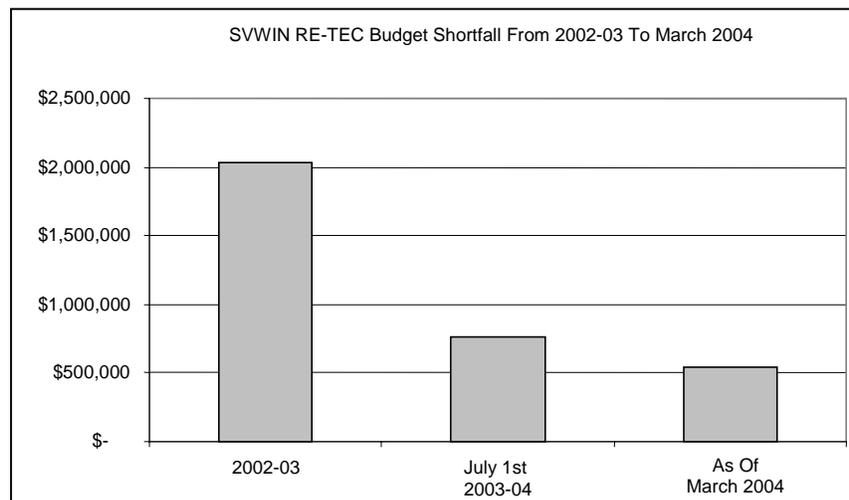
Introduction

The Workforce Investment Act of 1998 (WIA) established three new training programs—Adult, Dislocated Worker, and Youth—that allow for a comprehensive range of workforce development services activities through statewide and local organizations. Workforce development services include job search assistance, skills assessment, and training for eligible individuals through one-stop centers. As a result of WIA and state designation as a San Jose Silicon Valley Workforce Investment Area, the City created the SVWIN in July 2000. The Mayor, acting as a Chief Local Elected Official for the San Jose Silicon Valley Workforce Investment Area, appointed a Workforce Investment Board (WIB). The WIB, comprised of 42 mandated government, non-profit, and private sector representatives, currently has 38 members, and provides strategic planning, policy development, and oversight of the SVWIN. The Office of Economic Development (OED) administers the SVWIN and operates one-stop centers in San Jose, Campbell, and Gilroy. The one-stop centers serve the residents of San Jose, Saratoga, Gilroy, Los Altos Hills, Morgan Hill, Monte Sereno, Campbell, Los Gatos, and all the unincorporated areas of Santa Clara County.

In 2002-03, the Mayor's Office requested the City Auditor's Office to audit the SVWIN. The City Auditor's Office initiated an audit of the SVWIN in February 2004. Based on discussions with the Director of OED and senior staff of the SVWIN, we found that in response to its 2002-03 RE-TEC budget shortfall of \$2,032,000 the SVWIN had implemented a series of fiscal and management controls to prevent future program budget shortfalls. Therefore, we limited our audit to reviewing the internal controls the SVWIN had developed to prevent future program budget shortfalls and assessing the SVWIN's 2003-04 cash flows. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in this memorandum.

The SVWIN Had A RE-TEC Budget Shortfall Of \$2,032,000 In 2002-03

In 2002, the SVWIN formed a consortium¹ for two large state-funded grants - the Caregiver Training Initiative and the Regional Technologies Consortium Project (RE-TEC). The SVWIN allocated a certain percentage of the RE-TEC grant to each consortium member to use for training its residents. The SVWIN over-enrolled San Jose clients into the RE-TEC training program. In addition, the SVWIN did not reduce the funding allocation of the other members of the consortium. This led to a RE-TEC budget shortfall in 2002-03 of \$2,032,000. The members of the WIN Board and the WIN Finance Committee were made aware of this issue and were actively engaged in resolving it. The SVWIN covered its shortfall in large part through a series of cost saving measures totaling \$1,270,000. These cost saving measures included 1) reduction in temporary unclassified and permanent staffing; 2) reduction in program funding for the Dislocated Worker Program; 3) termination of contractual obligations to vendors; 4) reducing expenditures on supplies and travel; 5) elimination of rented equipment and vehicles; and 6) discontinuation of issuing training vouchers for the remainder of 2002-03. These cost saving measures addressed all but \$762,000 of the \$2,032,000 RE-TEC budget shortfall. The SVWIN carried over this remaining \$762,000 to 2003-04, which the SVWIN intends to cover by using 2003-04 Dislocated Worker Program funds. We confirmed that funding has in fact been set aside for resolving the shortfall. As of March 2004, the SVWIN still has outstanding RE-TEC program payments of \$537,383. The following exhibit illustrates the RE-TEC budget shortfall from 2002-03 to March 2004.



¹ The other Workforce Investment Boards that made up the consortium were Alameda County, City of Oakland, Contra Costa County, City of Richmond, Monterey, Sonoma County, San Benito County, San Joaquin County, San Mateo County, Santa Cruz County, and NOVA Workforce Investment Board.

The SVWIN Sr. Accountant estimates that the SVWIN will cover its RE-TEC payment obligations by the end of May 2004. In our opinion, the SVWIN should ensure that it makes all outstanding payments by the end of 2003-04 and report to the City Council once it has resolved its RE-TEC outstanding payment issue.

The SVWIN Has Developed A Series Of Management And Fiscal Controls In Response To The RE-TEC Shortfall

In order to prevent a reenactment of the 2002-03 RE-TEC budget shortfall, the SVWIN senior staff has developed and is in the process of fully implementing a series of management and fiscal controls. Some of these controls include: 1) an electronic voucher system that requires the electronic approval of all authorized parties prior to each client commencing training; 2) an electronic policies and procedures guide providing staff with immediate access to all current policies and procedures to ensure consistency among all of SVWIN's service providers and partners; 3) a local policy on individual training account cap, limiting training vouchers to a maximum cost of \$6,000 per client; and 4) an internal budget and expenditure tracking system.

The SVWIN's Fiscal And Administrative Controls Appear To Be Appropriate And Provide Reasonable Assurance That The SVWIN Will Not Experience A Future RE-TEC Budget Shortfall

We reviewed all the internal controls the SVWIN developed. We found that these controls appear to be adequate and sufficient and provide reasonable assurance that the SVWIN will not experience future RE-TEC budget shortfalls. The SVWIN has implemented these policies and procedures, and recently began to use its electronic voucher system. In our opinion, the SVWIN should continue to use these electronic controls and address operational threats as they arise.

We recommend, and the SVWIN agrees, that it report back to the City Council once it has fully resolved its residual \$537,383 RE-TEC program payment obligations. In addition, we recommend that the SVWIN continue to 1) update its policies and procedures to address additional operational threats as they arise; 2) use the procedures manual to advise and train current and new staff; and 3) institute management oversight to ensure compliance with the new procedures.

The SVWIN May Exceed Its Ten Percent Administrative Expense Cap Of \$1,318,710 By About \$129,000 In 2003-04

Federal WIA guidelines designate a ten percent administrative cap for local jurisdictions. We found that the SVWIN may exceed its ten percent administrative expense cap of \$1,318,710 by about \$129,000 in 2002-03. According to the SVWIN Sr. Accountant, this is a direct result of the City increasing the SVWIN's overhead allocation rate. The City increased the overhead allocation rate from 11.88 percent in 2002-03 to 18.17 percent in 2003-04. This resulted in an additional charge to the SVWIN of about \$129,000. The City's Finance Department (Finance) did not provide the SVWIN with the changed overhead allocation rate until February 2004. This was after the SVWIN had already budgeted their administrative expenses for the fiscal year in

May 2003. According to the Finance Analyst, Finance usually provides City entities with their overhead allocation rate at the beginning of the fiscal year. However, because of staff redeployment and vacancies, Finance was unable to provide the overhead allocation rates until the latter part of the fiscal year. According to the Sr. Accountant, the SVWIN has an administrative reserve fund that the SVWIN will use to partially cover its administrative cap overrun. We verified that the SVWIN does, in fact, have a reserve of about \$107,000. Finally, the SVWIN is in the process of talking to the State of California to see if it can reclassify some of its administrative expenses as program costs.

We recommend that the SVWIN:

Recommendation #1

- **Report back to the City Council once it has fully resolved its residual \$537,383 RE-TEC program payment obligations;**
- **Continue to update its policies and procedures to address additional operational threats as they arise;**
- **Continue to use the procedures manual to advise and train current and new staff; and**
- **Continue to provide management oversight to ensure compliance with the new procedures. (Priority 2)**

Conclusion

We found that in response to the 2002-03 RE-TEC budget shortfall of \$2,032,000, the SVWIN developed a series of fiscal and administrative controls. In our opinion, the SVWIN's current controls and procedures are appropriate and provide reasonable assurance that the SVWIN will not experience a future RE-TEC budget shortfall. However, the SVWIN still needs to fully resolve its residual RE-TEC program payment obligations of \$537,383. Finally, the SVWIN may exceed its ten percent administrative expense cap of \$1,318,710 by about \$129,000 in 2003-04. In our opinion, the SVWIN should ensure that it makes all outstanding payments by the end of 2003-04, report to the City Council once it has fully resolved its RE-TEC program obligations, and continue to address operational threats as they arise.

Gerald A. Silva
City Auditor