

APPENDIX D

AGENCY RESPONSE TO DRAFT REPORT

Matt Blunt Governor	MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT	Gregory A. Steinhoff Director
Division of Workforce Development		Roderick Nunn Director

September 20, 2006

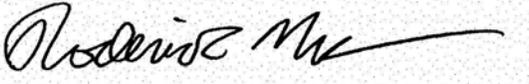
Charles M. Allberry
Regional Inspector General for Audit
U.S. Department of Labor
230 South Dearborn, Room 744
Chicago, Illinois 60604

Dear Mr. Allberry:

I am enclosing a copy of the St. Charles County letter to the Missouri Division of Workforce Development in response to your **draft report** of Report Number: 05-06-001-03-390 previously transmitted to me on August 30, 2006. The Missouri Division of Workforce Development met in person with representatives from the County, held two conference calls to discuss their proposed responses, have reviewed the St. Charles County response and are in agreement with the County's response. We would respectfully request that these comments and your evaluation be incorporated into the appropriate sections of the final report in addition to the attachment to the final report.

Please contact me with any questions.

Sincerely,



Roderick Nunn

RN:DMP

Enclosure

St. Charles County Government

County Counselor

September 19, 2006

Mr. Roderick Nunn
Director
Department of Economic Development
Division of Workforce Development
421 East Dunklin Street
Jefferson City, Missouri 65102-1087

RE: SAINT CHARLES COUNTY'S RESPONSE TO
U.S. DEPARTMENT OF LABOR
Office of Inspector General - Office of Audit
REPORT No.: 05-06-0001-03-390

Dear Mr. Nunn:

St. Charles County is a charter County and political subdivision of the State Of Missouri. Through its Department of Workforce Development, the County is a grant sub-recipient of workforce development funds under the Workforce Investment Act (WIA) and Welfare-to-Work (WtW) programs from the Missouri Division of Workforce Development (State).

In September of 2004 the County received an unannounced on-site review from three (3) auditors with the Department of Labor Office of the Inspector General. The auditors indicated they were present to investigate complaints DOL received about the County DWD's use of DOL grants. No specifics were provided to the County. The auditors indicated they would need County DWD and Finance Department records. Since DWD is offsite of the main campus, the auditors were provided a conference room and unfettered use of a copy machine on the main county campus. The auditors were free to come and go and had unlimited private access to the telephone.

In the Department of Finance, one DOL auditor was primarily present, and seemed to be largely testing DWD purchase records. The Assistant Director of Finance was provided a list of documents the Department of Finance was being called on to provide. That list, which she has retained, included the following: Chart of Accounts, the General

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Ledger 2001-2002, the subsidiary general ledgers for all Department of Labor programs 2001-2002, Cash Requests for Department of Labor grants 2001-2002, Time sheets for Department of Labor grants July 1, 2000 -December 31, 2003 and Purchase Requisitions, Purchase Orders, Accounts Payable Ledger from 2000-2004. Cost allocation plans and cross-walk spread sheets were not requested of her then or at anytime before the auditors left in November of 2004. She did however physically show the auditor one month of the cross-walks of which she had retained copies of and the back-up and explained that she had retained copies of these reports and back-up from July of 2003 forward.

Cost allocation plans and cross-walk spread sheets were among the documents requested of the Director of the Department of Workforce Development. The Department's Director was at a disadvantage in that his Fiscal Manager, the County employee primarily responsible for these records, had suffered a stroke in March of 2004 and had been absent until his resignation on September 2, 2004. Further all financial documents of the Department were part of the responsibility of this Fiscal Manager. The documents requested were documents routinely used and reviewed by the external independent auditors, the State monitors, and were regularly in use at the DWD. The reconciliation of the cross-walks to the costs and the form of the Cost Allocation Plan had been a subject frequently discussed during audits and monitorings. While the Director of DWD had assumed the position in May of 2002, he was aware of the monitoring comments by the State and the procedures which he had directed be modified to meet monitoring comments.

The DWD Director and the County are deeply concerned about the disappearance of records that clearly existed during the period of July 2000 through July 2004. Annual Single Audits by independent external auditors, state monitoring, and even copies of 13 months of the 49 month audit period retained in the Department of Finance demonstrate that the documents did in fact exist. Neither the DWD Director nor any other County official authorized the destruction of any records from this period.

In fact, a state monitoring report on February 26-28, 2001, noted that it *"Reconciled the WIA Contract Progress Reports, for the period ending January 2001, by line item back to St. Charles County Government Department of Workforce Development's declining Balance Report dated January 31, 2001."* That monitoring noted the County's change of software and criticized the County's allocation of costs, recommending the development of a cost allocation plan that *"allocates all expenditures based on a benefit derived basis."*

A monitoring for the previous year by the State, transmitted on January 12, 2000, notes under *"Sample Transactions"* that *"The review consisted of determining if each sampled transactions was an allowable DWD program expenditure, if there was adequate documentation to support the disbursement, if the expenditure was charge [sic] to the correct program and cost category. Items procured were reviewed for compliance with DWD procurement guidelines. If the cost was allocated, the cost allocation method*

was reviewed. No concerns were noted."

Similarly, in a review of the Program Year Ending June 30, 2004, the State monitoring notes that all of the Contract Progress Reports for WIA were reconciled to Excel Spreadsheets [cross-walks] with no exceptions. Further, that same report notes in Comment #7 "*The Cost Allocation Plan needs to be more fully developed with better explanations on how the cost allocations were made.*"

Comments offered in December of 2002 to improve the accounting system, but requiring no response by the County, included recommendations of additional information to be included on the Excel spreadsheets which the County DWD developed as the cross-walks.

The County has further evidence of the existing cross-walk spread sheets in the single year audits. The single year audits reviewed these programs as significant programs of the County. While independent audit work papers are proprietary, and the County is not currently contracting with that independent auditor¹, the independent auditor for 2001, 2002 and 2003 has provided copies of sample testwork within their workpapers, including cross-walks and declining balance reports and are willing to further assist where needed. The previous Fiscal Manager of DWD, also indicated the cross-walks existed while he was employed and indicated that there were twenty years of records there when he was Fiscal Manager.

The County recites these indicators, and further offers extensive evidence of the clients served by these programs and the expenditures made on behalf of these programs, to assure the Department of Labor that these grants were accounted for, and used to serve clients for which the grants were intended.

The records the Department of Labor sought were under the control of the Fiscal Manager of the Department of Workforce Development. The documents sought by DOL have been unable to be located since the resignation of the Fiscal Manager in September of 2004. Nor does the County have the assistance of the former Fiscal Manager in determining his knowledge with regard to the disappearance of these records in that the employee is litigating with the County with regard to a claim for worker's compensation. Nevertheless, various County systems retain copies of numerous documents which will allow the County to submit alternative documentation to support the claimed cost allocations and direct costs for the forty-nine (49) month period of July 1, 2000 through July 31, 2004.

The County accepts that the State will submit alternative documentation to support the claimed costs.

¹ The County chooses its independent auditor through its purchasing policy, which requires the bidding process every three years. The bidding process resulted in a new audit firm for the three (3) year period of 2004-2006.

In addition to this Response to the Executive Summary, the County makes the following specific comments with regard to the audit draft:

On page 6, the OIG states:

"Because the DOL grants were not a significant County program, the public accounting firm performing the County single audit tested only a limited number of DWD expenditures in 2001, 2002 and 2003 to meet the requirements of the Single Audit Act."

The County reply:

The single year audits for the years ending December 31, 2001, 2002, 2003 and 2004 note that the Workforce Investment is a major program tested. In addition, Welfare to Work is listed as a major program tested for the years ending December 31, 2001 and 2002. To the best of the County's information, the audit firms performed A-133 Single Audit standard industry audit tests for an Annual Single Audit.

On page 7 the Audit states :

" However, DWD was unable to provide these (crosswalk spreadsheets) essential audit trail documents." ... " DWD staff later informed us that they could not provide the cross walk spread sheets through July 31, 2004, our audit cut-off. Further the Declining Balance Reports were not available after September 2001."

The County reply:

The DOL OIG auditors had separated, with one talking to DWD and one to Department of Finance. As set forth in the response above, the DWD Director was without the Fiscal Manager and was unable to locate the documents. The Department of Finance Assistant Director was not asked for the crosswalk spread sheets. She was asked for the Chart of Accounts, the General Ledger 2001-2002, the subsidiary general ledgers for all Department of Labor programs 2001-2002, Cash Requests for Department of Labor grants 2001-2002, Time sheets for Department of Labor grants July 1, 2000 - December 31, 2003 and Purchase Requisitions, Purchase Orders, Accounts Payable Ledger from 2000-2004. The cash requests and timesheets were at the DWD and were requested from there by the Assistant Director for the requesting DOL OIG auditor.

The Assistant Director at the Department of Finance, while never asked for Cross-walk spreadsheets, suspected that the spreadsheets would answer some of the questions she was being asked and so made available the 13 months (July 2003 through July 2004) of copies of cross-walk spreadsheets and back up of which she was in possession. ² The

² The Assistant Director of Finance became involved in working the crosswalk spreadsheets in July 2003 as a result of a state monitoring which raised concern about

OIG Auditor assigned to her department did not speak to her about what use, if any, he made of those copies. To her knowledge, he did not copy them.

With regard to declining balance reports, the State's own monitoring for the period ending June 30, 2004, noted the Contract Programs Reports were reconciled to the Excel Spreadsheets with no exceptions. Clearly the declining balance reports did exist.

On page 8 the Audit quotes 29CFR97 § 97.20(b). The County will refrain from repeating the quotation.

County Reply:

The County maintains records which identify the source and application of grant funded activities, including information on obligated funds, unobligated funds, assets, liabilities, outlays, etc. Further, the County can support its use of such funds with procurement records and checks, paid bills, time and attendance records, etc. The County has not authorized the destruction of any DWD records related to the time period July 2000 through July 2004.

In addition, the DWD, not the Director of Finance, was responsible for these records. The St. Charles County Code, Section 128, established the Department of Workforce Development by ordinance passed December 29, 1999. The Department thus became a functioning County Department under the control of the County for its policies and procedures, including its accounting, for the first time in 2000. *Section 128.020 OSCCMo* details the powers and duties of the department head which include, but are not limited to, governing and controlling the day to day operations of the department, and its programs which provide employment and training services for St. Charles County citizens who meet Federal guidelines in an effort to maintain full employment in St. Charles County and for its citizenry. Further, the Department of Finance is not assigned with the responsibility for maintaining the financial records of the entire County, including DWD, according to the "Municipal Code" as the report states. DOF's duties and powers are set out in §130.050 OSCCMo. Nowhere in that section is the Director of Finance charged with maintaining the financial records of the entire County. In fact, §130.050.D OSCCMo states:

The Director of Finance shall be responsible for the development, implementation and maintenance of a system which allows him to process all accounts payable of St. Charles County including accepting requests for payment of goods or services, approving such requests if such requests are within the guidelines of the Department's budget and issuing payment.

The DOL OIG audit misinterprets §130.055 OSCCMo, to mean such; however, that section provides for the transfer of certain duties from the County Auditor to the Director of Finance and must be read *in pari materia* with the authority granted the Department of Finance in its enabling ordinance.

Page 10 The Audit states:

working with the DWD Fiscal Manager. The Assistant Director of Finance retained copies of all work with which she was involved.

The first semimonthly payroll for November 2001 contains pre-signed blank time sheets. The Auditors contacted one employee who confirmed she signed a blank time sheet.

County Reply:

On October 31, 2001, the County removed the DWD Director pursuant to an investigation which ultimately led to his permanent removal. From November 15, 2001 forward the time sheets are filled out directly by the employee with regard to time and leave, and the grant to which they allocated their time. Prior to that date, the employee accounted for their time directly, however a DWD fiscal employee indicated she assisted with some forms. Some aspects of the time sheets are testable, such as through the original leave sheets filled out by the employee and attached to all time sheets. These leave sheets clearly show the employees' personal documentation for their time. Moreover, some employees worked on a single grant during the period audited. Grant time deriving from that period was tied to client count kept by the DWD Fiscal Manager.

On page 10 the Audit indicates:

There is no record of payment or allocation for worker's compensation claims.

County Reply:

Evidence in the County records concerning the County General Fund irrefutably establishes that the County paid DWD's worker's compensation claims from the County's general fund.

Thank you for the opportunity to reply to the OIG Draft Report.

Sincerely,

/s/ Joann Leykam

Joann Leykam
County Counselor

Cc: County Executive Ortwerth
DWD Director Don Holt
Director of Finance Rebecca Craig
Assistant County Counselor Beverly Temple
Assistant Finance Director Debbie Salvo