



**MAYOR'S OFFICE OF EMPLOYMENT DEVELOPMENT**

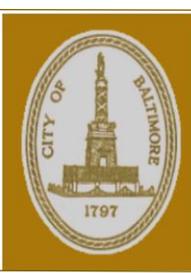
**YOUTHWORKS 2017 SUMMER PROGRAM AUDIT**

**For the Period**

**June 26, 2017 through August 11, 2017**

# TABLE OF CONTENTS

<b>Executive Summary</b>	<b>1</b>
<b>Background Information</b>	<b>2</b>
<b>Findings and Recommendations</b>	<b>3</b>



## Executive Summary

We conducted a Non-Traditional audit of the payroll function of the YouthWorks (YW) Summer Program that operates under the Mayor's Office of Employment Development (MOED), for the period June 26, 2017 through August 11, 2017 (stated period). The purpose of our audit was to determine whether internal controls and the related policies and procedures of YW were effectively designed and placed in operation to monitor, control, and report valid and reliable information that is significant to the selected function for the stated period.

As a result of our audit, we noted internal controls are not operating effectively in accordance with YW policies and procedures. We also noted certain areas where the effectiveness of the control procedures could be improved, and we recommend that:

- YW maintain complete records to support participant hours worked (timesheets and worksite attendance sheets). According to YW's payroll procedures, once timesheets and worksite attendance sheets have been collected, compared and reviewed, attendance posting can be completed.

A handwritten signature in black ink, appearing to read "Audrey Askew".

Audrey Askew, CPA  
Acting City Auditor

May 25, 2018

**Mayor's Office of Employment Development  
YouthWorks 2017 Summer Program Audit  
Background Information  
For the Period June 26, 2017 through August 11, 2017**

The Mayor's Office of Employee Development's (MOED) Youth Services division provides the City's future workforce with the tools they need to succeed in careers in local, high-growth industries. YouthWorks (YW), one of Baltimore City's Youth Summer Jobs Programs that the division operates, offers thousands of youth ages 14-21, five-week job experiences with non-profit, government, and private sector employers. Participants work in a variety of industries, and gain basic workforce readiness and career-specific skills.

YW has existed for several decades. Currently, it serves 14-21 year old young adults, and provides them with a 5 week summer job for 25 hours a week. Youth work at hundreds of different sites throughout the city. For many years, YouthWorks offered a job to about 5,000 youth each summer, but given the city's challenges, officials have encouraged the program to expand, and the last two years it has offered employment to about 8,000 youth. One of the primary challenges of the program is that the city (led by MOED) must move the great majority of youth onto the city's payroll each year. Another challenge is finding placements for as many youth as possible. Employers are not always focused on summer job needs until very close to when the season starts, leaving little time for planning and training.

Since the program's inception, youth were paid through a standard paycheck. This required thousands of checks to be delivered to worksites across the city. The concern was – most of those served (teens) don't have access to a bank account and had to go to a check casher, who charged a high transaction fee and required the youth to "cash" all of their money at once, making saving less likely. MOED piloted a move to a "pay card" system utilizing an "Aline" card issued by ADP in 2016 for about 60 youth. MOED and the city found that the system worked well and expanded to use Aline for all participants in 2017. In the first year fully implemented, several unexpected challenges emerged. For example, ADP delivered the cards to MOED in no particular order and in some cases the names of the card holder were cut off.

Many Baltimore teens have their first job experience through YW. They are still learning workplace procedures but the paid opportunity they receive from the program is critical to their families. Meanwhile, many area employers are willing to supervise young people but are concerned about the administrative burden. MOED sought a better process to pay young adults for their time but can only utilize the city's vendor for its pay card and has no control over the outside vendor's procedures.

With so many factors beyond the control of the agency (youth signing cards, employers maintaining records, ADP's change order procedures), MOED was still able to manage one of the largest summer jobs programs in the nation and ensure that the great majority of young adults were paid appropriately and on time. YW looks forward to continuing to work with the City Auditor to strengthen its practices in the future.

**Mayor's Office of Employment Development  
YouthWorks 2017 Summer Program Audit  
Findings and Recommendations  
For the Period June 26, 2017 through August 11, 2017**

The Department of Audits (DOA) performed an audit of the YouthWorks (YW) Program, for youth participants with temporary employment, to determine whether internal controls over payroll are effective and there is reasonable assurance that the payroll is accurate for the period of June 26, 2017 through August 11, 2017. During our audit, we noted the following:

**FINDING #1 – IMPROPER PAYMENTS**

**CRITERIA**

The Committee of Sponsoring Organizations (COSO) and standard business practice requires entities to maintain a system of internal control that provides reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

**CONDITION**

We obtained an ADP generated report dated 8/18/2017 from YW that identified 162 participants with a total payroll value of \$42,533.02 with an indication of “never activated card.” Since the cards were not activated within 30 days of issuance, the cards were cancelled and the 162 YW participants were sent checks. YW confirmed with the guardian(s) of 11 participants the receipt of improper payments and received funds back from one participant in the amount of \$384.00. The DOA also received \$214.00 from the parent of an additional participant not included in the 11 participants identified above. Of the 10 remaining participants tested, \$3,756.00 was not recovered by the YW office.

**CAUSE**

Lack of oversight allowed improper payments to be undetected in cases where the participant did not actually work. According to YW, using ALINE debit cards as a method for payroll payments to YW participants was new to the YW Program. Approximately 11,000 participants registered for the YW program, of which 11,000 cards were ordered but never activated or given to participants. Approximately 8,000 of those participants received job placement. However, the remaining 3,000 participants who did not receive job placement had the capability to activate their cards. ADP is the third-party vendor responsible for processing participants' payroll payments, upon submission of payroll information by YW to ADP. After a 30 day period of card issuance, the inactivated cards were voided and ADP processed and mailed payroll checks directly to participants, of which some did not work during the stated period, related to the voided cards. YW Services discovered this error after the 5 day window allowed by ADP ALINE to discover errors made in payroll in order to reverse funds. YW attempted to contact the guardian(s) of 162 participants to request repayment of these improper payments in a form other than the improper check issued to the participants.

**Mayor's Office of Employment Development  
YouthWorks 2017 Summer Program Audit  
Findings and Recommendations  
For the Period June 26, 2017 through August 11, 2017**

**FINDING #1 – IMPROPER PAYMENTS (Continued)**

**EFFECT**

Improper payments result in the City's loss of revenues, decreased integrity and unreliability of information provided by the YW Program. This could lead to decreased State funding for the program.

**RECOMMENDATION**

We recommend YW establish procedures to ensure that ALINE cards are only issued to participants that receive job placement and to maintain records to support performance of a review to ensure participants are paid only for hours worked.

**AUDITEE'S RESPONSE**

ALINE Cards were distributed only to participants with a job and not all registered participants. During the audit testing, the auditors observed the cards sealed in envelopes for participants who were not assigned a job placement. The auditors opened sealed envelopes to verify the participant name matched the folder contents. No exceptions were noted. The cards are maintained in locked files in the YouthWorks office.

By law, each worker – and in this case “cardholder” – has the option to activate the card or not to do so and seek payment by check. Moreover, only the card holder may activate the card. The ‘never activated card’ report includes some youth that received a check erroneously but also includes many youth that worked and were due a check to be paid for their hours. Audit sample testing showed that some participants of the ‘never activated card report’ did work and payment was appropriate.

We acknowledge that payroll errors are problematic; however, we also ask that the risk tolerance be taken into consideration. Auditors and MOED have determined that some participants on the ‘never activated report’ did work and the pay was not in error.

Nevertheless, if we assume that the never activated report indicating 162 participants and paychecks totaling \$42,533.04 were paid in error, the following risk tolerance does not appear material.

- Total 2017 YouthWorks participants 7,504 compared to the 162 on the report- risk tolerance 2%
- Total 2017 YouthWorks payroll \$8,086,123 compared to \$42,533.02 on the report – risk tolerance ½ of one percent

As noted in the audit report, MOED identified fourteen (14) transactions were erroneously processed and efforts were made to stop the transactions. The five (5) day window to make error adjustments prior to check issuance is an ADP vendor requirement. Had ADP given more time to make adjustments, MOED would likely have been able to make corrections within a few days of

**Mayor's Office of Employment Development  
YouthWorks 2017 Summer Program Audit  
Findings and Recommendations  
For the Period June 26, 2017 through August 11, 2017**

**FINDING #1 – IMPROPER PAYMENTS (Continued)**

**AUDITEE'S RESPONSE (continued)**

the error. MOED researched other vendors to determine if there was any availability to extend the error adjustment window. US Bank offers a feature that allows online adjustments, audit reports and eliminates the check payment requirement. The Baltimore City Legal Department has informed MOED that the City is currently under contract with ADP for the use of the ALINE cards, which contract terminates on June 30, 2018, with an option to renew for two (2) additional one (1) year terms, to be exercised at the sole discretion of the City. MOED would encourage the city to explore other opportunities for this contract.

**AUDITEE'S CORRECTIVE ACTION**

- MOED will order 2018 pay cards only for participants that received a job placement. We better understand the order process and have confidence that the cards will be available on the first payroll date. In 2017, the full order decision was made to ensure cards were available for all job placements and participants were paid on time.
- MOED will create a disclaimer for all YouthWorks participants to sign. The disclaimer will include language that in case of error, the participant agrees to reimburse the YouthWorks program. Failure to comply will result in the youth being ineligible for future assignments in the program.
- ADP practices require that an erroneous participant check cannot be returned to MOED and VOIDED. MOED will discuss and evaluate alternatives with ADP representatives and establish the appropriate internal controls.
- Cards that are never activated will be inventoried and destroyed. At least two persons will participate in the process.

**Auditor's Updated Response**

DOA performed testing on High Risk areas. We cannot confirm whether the total Participants' activity was accurate. Therefore, we cannot state whether or not the stated risk tolerance is accurate.

Based upon additional testing, we tested 24 participants, and noted a 21% error rate, which indicates that MOED is significantly deficient in this area of testing.

In the above Auditee's Response, MOED states they identified the 14 transactions. This statement is incorrect, MOED identified 11 YouthWork Participants. One participant's information was provided to the DOA by the parent and the YW office did not have knowledge of this Participant's information.

**Mayor's Office of Employment Development  
YouthWorks 2017 Summer Program Audit  
Findings and Recommendations  
For the Period June 26, 2017 through August 11, 2017**

**FINDING #2 – MISSING AND INCOMPLETE PAYROLL RECORDS**

**CRITERIA**

The Committee of Sponsoring Organizations (COSO) and standard business practice requires entities to maintain a system of internal control that provides reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

**CONDITION**

During our audit, we initially selected the 11 discrepancy transactions that YW discovered from a population of 162 Participants with an indication of “never activated card.” DOA added one Participant that was not noted by MOED. Due to significant findings noted during this testing, we expanded our testing by selecting an additional 32 transactions out of 162 Participants included on the "Never Activated Card" listing. Based on our testing, we noted missing and incomplete records to support Participant hours worked as follows:

For initial testing, we were unable to locate Participant attendance for three out of 14 transactions (21%); Participant attendance in file had no attendance entry, blank or marked “0” for five of 14 transactions (36%); and, Participant attendance in file was missing Participant and/or supervisor signature for two of 14 transactions (14%). Payroll hours were not paid in accordance with actual hours worked, specifically two participants did not work during the period tested.

For additional testing, we were unable to locate Participant attendance for three out of 32 transactions (9%); Participant attendance in file was incomplete/had discrepancy in the Participant's signature for five of 32 transactions (16%); unable to locate worksite attendance sheet. Subsequent to DOA's recommendation, a YW management letter was provided to DOA confirming missing documentation for six out of 32 transactions (19 %); hours reported on timesheet did not agree to HRIS for three out of 32 transactions (9%); and, unable to locate Participant attendance on file; therefore, DOA was unable to determine if supporting documentation was reviewed for three out of 32 transactions (9%).

**CAUSE**

Lack of oversight to ensure records are maintained, complete and support participant hours worked. The YW office does not have proper controls in place to maintain accurate payroll information for the YW program.

**EFFECT**

The inability to provide support for participant hours worked, wages paid for the YW program, and grant compliance, may result in inaccurate reporting, return of State funding and unreliability of information provided by the YW Program.

**Mayor's Office of Employment Development  
YouthWorks 2017 Summer Program Audit  
Findings and Recommendations  
For the Period June 26, 2017 through August 11, 2017**

**FINDING #2 – MISSING AND INCOMPLETE PAYROLL RECORDS (Continued)**

**RECOMMENDATION**

We recommend YW establish processes to ensure adequate collection, comparison and review of payroll records to support actual participant hours worked. For supporting documentation of the review performed, we recommend YW create a Discrepancy Form that identifies the reviewer's name, review date, participant's name, pay period, and any discrepancies noted. For noted timesheet discrepancies, we recommend YW ensure timesheets be returned into the field for resolution and completion and returned back to YW office for further review.

**AUDITEE'S RESPONSE**

MOED has established policies and provides monitoring of payroll timesheets and payroll reports for unusual transactions. The agency also utilizes dual internal controls and both preventative and detective controls exist to ensure payroll is processed for participants who work.

Internal controls are designed to deter fraudulent activity, and effective internal controls provide management with information required to timely address suspicious activity. Internal controls cannot detect all fraudulent activity, consequently, there is always a possibility that exceptions will occur.

We concur with the results of the sample audit test above; however, the testing appears to indicate timesheet verification and validation is insufficient. MOED has identified the following challenges we must address to ensure an improved time reporting system.

- Many participants are between the ages of 14-17 with YouthWorks being their first job, and the participants have no prior knowledge of time reporting or attendance sign in requirements.
- Some worksite supervisors have indicated there is too much paperwork in the process. In their already busy schedules, they have agreed to participate in the program and accepted participants to train.
- The budget for the program requires the hiring of temporary field monitors who are likely to change each year. Consistent practices may not be effectively maintained year after year.
- We will evaluate the cost/benefit analysis required to hire more field monitors. The cost to employ each monitor is \$3,920 which may eliminate up to three (3) YouthWorks participant positions.

**Mayor's Office of Employment Development  
YouthWorks 2017 Summer Program Audit  
Findings and Recommendations  
For the Period June 26, 2017 through August 11, 2017**

**FINDING #2 – MISSING AND INCOMPLETE PAYROLL RECORDS (Continued)**

**AUDITEE'S CORRECTIVE ACTION**

- MOED has created the recommended Discrepancy Report and the process will be implemented for YouthWorks 2018.

MOED will provide field monitors and YouthWorks participants with extensive training on reviewing and submitting completed timesheets in an effort to further reduce payroll errors.

**FINDING #3 – FALSIFICATION IN USE OF PARTICIPANT NAME FOR JOB PLACEMENT**

**CRITERIA**

The Committee of Sponsoring Organizations (COSO) and standard business practice requires entities to maintain a system of internal control that provides reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

**CONDITION**

During a discussion with ADP and Central Payroll, the Department of Audits was informed of possible fraudulent activity related to falsification in use of a Participant's name. The DOA contacted the Youth Works office to gain additional information to determine the validity of the suspicion of fraud. One Participant registered in the YW program, but did not work during the period because the participant left the country. The worksite replaced the Participant with another Participant but used the original Participant's name for the duration of working in the program.

**CAUSE**

The YW Worksite Supervisor (on site supervisor) authorized the above action, without the knowledge of the YW office.

**EFFECT**

This could lead to questionable operations, including concerns of possible fraudulent activities. In addition, this could result in the request of funds to be returned.

**RECOMMENDATION**

We recommend YW strictly enforce the policy related to participant attendance and payroll procedures, without exception.

**Mayor's Office of Employment Development  
YouthWorks 2017 Summer Program Audit  
Findings and Recommendations  
For the Period June 26, 2017 through August 11, 2017**

**FINDING #3 – FALSIFICATION IN USE OF PARTICIPANT NAME FOR JOB PLACEMENT (Continued)**

**AUDITEE'S RESPONSE**

The improper use of a participant's name by a worksite for payment purposes is a very significant issue. However, it should not be considered an audit finding as it was identified by the agency well before the start of the audit and brought to their attention. In fact, before the audit was initiated, MOED brought it to the attention of the Inspector General and it is our understanding that the legal recourse is being pursued against the individual at the non-government worksite.

MOED requests that the stated incident remain in the audit report to illustrate working internal controls.

On August 8, 2017, a parent contacted the YouthWorks office to report a mailed check stub to the participant's address. The parent confirmed that the participant named as the payee did not participate in the summer program. MOED identified the worksite for the named participant. It was determined that collusion had occurred, whereby, the worksite supervisor (non MOED employee) allowed an unauthorized youth to substitute the participant originally placed by MOED. Collusion occurred when the unauthorized youth and worksite supervisor worked together to take the identity of a participant. MOED contacted the Office of Inspector General (OIG) on August 9, 2017. The Worksite supervisor met with OIG (without our knowledge) and gave the check to the OIG. OIG forwarded the check to Central Payroll. The worksite fully reimbursed the Summer YouthWorks Program on September 12, 2017 with a check in the amount of \$878.75.

**AUDITEE'S CORRECTIVE ACTION**

- Internal controls are designed to deter fraudulent activity. Effective internal controls provide management with information required to address suspicious activity in a timely manner. Internal controls cannot detect all fraudulent activity, consequently, there is always a probability that exceptions will occur. Furthermore, the fraudulent activity, identified above, represented an act of collusion which is often both difficult to prevent and detect. The effective control was the mailing of the pay stub to the participant. Additionally, this is a new internal control that was developed when MOED changed to pay cards. Previously, the pay stub would have been delivered to the worksite. So in fact, the fraudulent activity would have been detected six (6) months later with the issuance of a W2 under the previous policy. In other words, internal controls were both stronger than previously and worked effectively to identify the issue.

**Mayor's Office of Employment Development  
YouthWorks 2017 Summer Program Audit  
Findings and Recommendations  
For the Period June 26, 2017 through August 11, 2017**

**FINDING #3 – FALSIFICATION IN USE OF PARTICIPANT NAME FOR JOB PLACEMENT (Continued)**

**AUDITEE'S CORRECTIVE ACTION (continued)**

- MOED proactively responded, evaluated, communicated and resolved the matter timely. The Workplace cited for the fraudulent activity was immediately removed from further participation. All workplaces cited for fraudulent activity are reported to the Attorney General to ensure full reimbursement and MOED removes the organization as a YouthWorks worksite.

**Auditor's Updated Response**

The DOA is required to report fraudulent activity to the Board of Estimates, even if it was initially obtained during communication with personnel. Our required communication to the Board is as follows:

- [AU-C 260](#) provides authoritative guidance for communicating with those charged with governance. Identified fraud or suspected fraud involving management, employees who have a significant role in internal control, or others when the fraud results in a material misstatement in the financial statements ([AU-C 240.40](#)).
- Any other matters related to fraud that the auditor believes are relevant to the responsibilities of those charged with governance ([AU-C 240.41](#)).
- Matters involving noncompliance with laws and regulations that come to the auditor's attention, other than those that are clearly inconsequential ([AU-C 250.21](#)).