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DARLENE GREEN  
Comptroller



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



*Internal Audit Section*

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November 20, 2006

Lily Qiu, Executive Director  
Productive Futures, Inc.  
5225 Delmar Blvd.  
St. Louis, Missouri 63108

RE: Special Fiscal Monitoring Report of Productive Futures, Inc.,  
(Project #2007-SLATE 3)

Dear Ms. Qiu:

Enclosed is a report of our special fiscal monitoring review of Productive Futures, Inc. Contract #113-06 for the period July 1, 2005 through June 30, 2006. The scope of a fiscal monitoring review is substantially less than an audit, and as such, we do not express an opinion on the financial operations of Productive Futures, Inc. Our fieldwork was completed on September 20, 2006.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and an agreement with St. Louis Agency on Training and Employment (SLATE) to provide fiscal monitoring to all grant subrecipients. If you have any questions, please contact Charlie Schroeder 589-6089.

Sincerely,

A handwritten signature in cursive script that reads "Sedrick D. Blake".

Sedrick D. Blake, CPA  
Internal Audit Executive

Enclosure

cc: Edward T. Jones, Director, St. Louis Agency on Training and Employment  
Kim Neske, Fiscal Manager, St. Louis Agency on Training and Employment



# CITY OF ST. LOUIS

*ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT (SLATE)*

*PRODUCTIVE FUTURES, INC.  
CONTRACT #113-06*

*FISCAL MONITORING REVIEW*

*JULY 1, 2005 THROUGH JUNE 30, 2006*

*PROJECT #2007-SLATE3*

*DATE ISSUED: NOVEMBER 20, 2006*

*Prepared by:  
The Internal Audit Section*



# OFFICE OF THE COMPTROLLER

*Honorable Darlene Green, Comptroller*

**CITY OF ST. LOUIS**  
**ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT**  
**PRODUCTIVE FUTURES, INC.**  
**CONTRACT #113-06**  
**SPECIAL FISCAL MONITORING REVIEW**  
**JULY 1, 2005 THROUGH JUNE 30, 2006**

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**CITY OF ST. LOUIS  
ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT  
PRODUCTIVE FUTURES, INC.  
CONTRACT #113-06  
SPECIAL FISCAL MONITORING REVIEW  
JULY 1, 2005 THROUGH JUNE 30, 2006**

**INTRODUCTION**

**Background**

**Contract Name:** Productive Futures, Inc.  
**Contract Number:** #113-06  
**Contract Period:** July 1, 2005 through June 30, 2006  
**Contract Amount:** \$308,261.48

Productive Futures, Inc. is a for profit entity. The contract provided Workforce Investment Act funds through the St. Louis Agency on Training and Employment (SLATE) to Productive Futures, Inc. for the adult worker program. The contract provided reimbursements for each of five activities. The Agency was reimbursed when it completed each activity.

**Purpose**

The purpose of our review was to determine whether the Agency's actual costs equaled or exceeded the funds SLATE provided for the adult worker program for the period July 1, 2005 through June 30, 2006 and make recommendations for improvements.

**Scope and Methodology**

We made inquiries regarding Productive Futures, Inc. expenditures relating to the grant administered by SLATE, tested evidence supporting the reports the agency submitted to SLATE and performed other procedures considered necessary. Our fieldwork was completed on September 20, 2006. Management's response was received on October 10, 2006 and incorporated into the report.

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**CONCLUSION AND SUMMARY OF OBSERVATIONS**

**Conclusion**

The Agency's un-audited income statement for the fiscal year ended June 30, 2006 did not provide sufficient detailed information to identify the actual costs attributable solely to the WIA Adult Worker Program. The Agency combined these expenses with its SLATE Youth Program. However, in its budget the Agency estimated that WIA Adult Worker Program expenditures would be 51% of the total expenditures for all programs. Therefore, we used this percentage to calculate the cost chargeable to the program. Therefore, the cost charged to the program is an estimate. The estimate appears to be reasonable.

Based on this estimate, the Agency's expenditures to operate the adult worker program were less than the reimbursements received from SLATE. The Agency received \$304,758 in reimbursements from SLATE. The Agency's expenditures, including budgeted and non-budgeted items, were \$287,014 or \$17,744 less than the reimbursements.

The Agency's time reports did not identify the time spent for each of the five activities identified in the contract. Accordingly, we could not determine the actual time expended for each category. Again, we used the percentages from the original budget, which the Agency presented to SLATE.

	Income Statement	Calculated					
	Adult/Youth Total	Rate at 51.00%	Recruitment 29.090%	Short- Term 43.070%	Job Dev. 23.170%	30 Day 3.670%	90 Day 1.000%
Est. Cost Amt.	\$ 543,165.11	287,014.21	83,492.43	123,617.02	66,501.19	10,533.42	2,870.14
Reimbursed	\$	304,757.61	88,482.47	131,005.16	70,465.60	11,325.47	3,478.92
Amt. OVER	\$	17,743.40	4,990.03	7,388.14	3,964.41	792.04	608.78
This Yr per unit	\$		33.72	49.92	26.79	5.13	2.05
Carry in per unit	\$					6.18	7.38

The estimated cost multiplied by 51% is \$277,014.21. We added the \$10,000 profit projections, which was included in the budget presented to SLATE. Productive Futures is a for profit entity.

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**CONCLUSION AND SUMMARY OF OBSERVATIONS**

**Summary of Current Observations**

The Agency combined expenses for the SLATE Adult and Youth Programs. In addition, it did not maintain time reports showing actual time spent on each activity because reimbursements were based on per performance contracted rates. This made it impossible to ascertain the actual cost for the program and the amount of time spent on each activity.

**Recommendation**

If the Agency is awarded an adult worker contract in the future, it should confirm with SLATE how expenses for the program and time spent on each activity within the program need to be recorded.

**Management's Response**

*Thank you very much for your audit. (We) would like to respond to your audit by providing explanations for items that may require clarity and let you know what actions we will take, along with the direction we need from SLATE.*

*Regarding the combined expenses for the Adult and Youth program. Please note that our Youth program is line-item cost based. You can see exactly how much it costs for each item from our reimbursement. If you subtract it from the total cost, you will get the costs for the corresponding Adult program item. Beginning July 1, 2006, the Youth program became performance based also and we now have the Adult program from September 2006. We will take the additional step of separating the expenses for the Adult and Youth programs clearly in our QuickBooks accounting system. This will make everything very clear for audit purposes.*

*Regarding profit for the company. Yes, we do have profits. We received \$304,758 in reimbursement from SLATE for Adult program for fiscal year July 1, 2005 to June 30, 2006. The cost for the Adult program was \$277,014.21. So, the profit percentage was 9.1% that is very reasonable and well below the average profit in the industry. Our profits have allowed us to provide SLATE with a very cost effective program and high performance.*

*Regarding the time report. We have run Adult programs with SLATE for 20+ years and we never heard anything from SLATE regarding this issue. Neither contract requirements nor fiscal report training from SLATE has addressed*

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**CONCLUSION AND SUMMARY OF OBSERVATIONS**

**Management's Response continued...**

*this issue. If there is more specificity that is required, then I have to ask for guidelines from SLATE in writing so that we can follow and give you a satisfactory time report. It should be noted, however, that when we included*

*specific percentages of time allocation by staff for activities with our contract budget, this was based on a careful assessment by management of average time spent by our staff on these activities so they represent a reasonable approach to determining a baseline for time allocation given our 20+ years of experience...*

**Auditor's Comments**

We encourage the Agency to consult with SLATE to determine how revenue and expenses for the program and time spent on each activity within the program need to be recorded.

The Agency provided us with profit margin data from Gevity, HR Inc. indicating that its 9.1% pre-tax profit margin was reasonable. The pre-tax margin for the industry—5 year average was 14.95%.