State of California

Employment Training Panel

Arnold Schwarzenegger, Governor

August 20, 2010

Mike Markowich
Executive Vice President
Williams Furnace Company
250 W. Laurel Street
Colton, CA 92324

Dear Mr. Markowich:

Enclosed is our final report relative to our review of Williams Furnace Company's compliance with the Employment Training Panel Agreement No. ET07-0260 for the period February 6, 2007 through February 5, 2009.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original signed by

Stephen Runkle
Audit Manager

Enclosures

cc: Anthony F. Wiezorek, Attorney-at-Law

WILLIAMS FURNACE COMPANY

Agreement No. ET07-0260

Final Audit Report

For The Period

February 6, 2007 through February 5, 2009

Report Published August 20, 2010

Stephen Runkle, Audit Manager
Telephone: (916) 327-4758

Audit Staff: Eric Khotpanya

Employment Training Panel
Audit Unit
1100 J Street FL 4
Sacramento, CA 95814-2827

ET07-0260.fnl

TABLE OF CONTENTS

	Page Number
AUDITOR'S REPORT	
Summary	1
Background	2
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Audit Appeal Rights	3
Records	3
SCHEDULE 1 - Summary Of Audit Results	5
FINDINGS AND RECOMMENDATIONS	6

ATTACHMENTS

ATTACHMENT A - Appeal Process
ATTACHMENT B - Table of Questioned and Disallowed Trainees

AUDITOR'S REPORT

Summary

We performed an audit of Williams Furnace Company's Agreement No. ET07-0260, for the period February 6, 2007 through February 5, 2009. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit fieldwork was performed during the period August 9, 2010 through August 10, 2010.

The Employment Training Panel (ETP) paid the Contractor a total of $546,957. Our audit supported that $538,371 is allowable. The balance of $8,586 is disallowed and must be returned to ETP. The disallowed costs resulted from six trainees who did not meet minimum wage requirements. In addition, we noted $546,957 in questioned costs for noncompliance with ETP recordkeeping requirements for 263 trainees.

Background

Founded in 1916 as Williams Radiator Company, Williams Furnace Company (Williams) currently operates a manufacturing facility in Colton. At that facility, hundreds of Californians are employed by Williams in the manufacture of wall furnaces and custom fan coil systems that are used both in residential and commercial buildings.

This Agreement was the second between Williams and ETP. Prior to this Agreement, Williams was increasing production due to a high demand for fan coil systems, which operate using hydronics (the use of water as the heat-transfer medium in heating and cooling systems). Williams' goal of increased production created a need to increase efficiency, so the company developed a detailed, retraining initiative to enhance the competencies of its frontline staff in high performance workplace skills. Additionally, to better manage rapid growth, Williams invested in new Enterprise Resource Planning software. Therefore, this Agreement provided for training in business, computer, literacy and manufacturing skills, as well as continuous improvement and management skills.

This Agreement allowed Williams to receive a maximum reimbursement of $562,212 for retraining 322 employees. During the Agreement term, the Contractor placed 263 trainees and was reimbursed $546,957 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Williams Furnace Company. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Williams Furnace Company complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.
- Trainees were employed continuously full-time with the Contractor for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.

- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion

As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported $538,371 of the $546,957 paid to the Contractor under this Agreement was allowable. The balance of $8,586 was not earned according to the terms of the Agreement and must be returned to ETP.

Views of Responsible Officials

The audit findings were discussed with Mike Markowich, Executive Vice President, at an exit conference held on August 10, 2010 and by telephone on August 16, 2010. Mr. Markowich agreed to bypass the issuance of the draft report and proceed to the final audit report.

Audit Appeal Rights

If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "…to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor… This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Stephen Runkle
Audit Manager

Fieldwork Completion Date: August 10, 2010

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET07-0260 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

WILLIAMS FURNACE COMPANY

AGREEMENT NO. ET07-0260

FOR THE PERIOD

FEBRUARY 6, 2007 THROUGH FEBRUARY 5, 2009

			Amount	Reference*
Training Costs Paid By ETP			$ 546,957	
Costs Questioned and Disallowed:				
	Questioned Costs	Disallowed Costs		
Minimum Wage Requirement Not Met	$ 8,586	$ 8,586		Finding No. 1
Noncompliance with ETP Recordkeeping Requirements	546,957	-		Finding No. 2
Totals	$ 555,543	$ 8,586		
Total Costs Disallowed			$ 8,586	
Training Costs Allowed			$ 538,371	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 1 – Minimum Wage Requirement Not Met

Williams Furnace Company (Williams) received reimbursement for the training costs of six trainees who did not meet the minimum wage requirement specified in the Agreement. As a result, we disallowed $8,586 in training costs claimed for these trainees.

Exhibit A, paragraph VII. A. of the Agreement states, "Each trainee must be employed full-time… for a period of at least ninety (90) consecutive days immediately following the completion of training… Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement]."

The Agreement required that trainees employed in San Bernardino County earn a minimum wage rate of $12.38 per hour following the post-training retention period. The Agreement allows the Contractor to include the dollar value of employer-paid health benefits to trainee hourly wage rates to meet the minimum wage requirements. In addition, Williams' employees who choose to opt out of employer-paid health benefits receive direct monetary compensation in-lieu of employer paid health benefits. This compensation is paid as a supplement to their regular hourly wages. Therefore, for the purposes of our audit, ETP auditor also added the cost of this monetary compensation, when applicable, to meet the minimum wage requirements.

The table below lists the hourly wage rates as reported by Williams, the required wage rates, actual wage rates per Williams' payroll records, the employer-paid health benefits or compensating pay in-lieu of employer-paid health benefits, and the total actual wage rates of the six trainees noted above.

Trainee No.	Job No.	Reported Wage Rate	Required Wage Rate	Wage Rate Per Payroll Records	Employer-Paid Health Benefits or In-Lieu Pay	Total Actual Wage Rate
1	1	$10.03	$12.38	$10.03	$0.58	$10.61
2	1	$10.03	$12.38	$10.03	$0.58	$10.61
3	1	$9.73	$12.38	$9.73	$0.58	$10.31
4	1	$10.03	$12.38	$10.03	$0.58	$10.61
5	1	$9.73	$12.38	$9.73	$0.58	$10.31
6	1	$10.03	$12.38	$10.30	$1.06	$11.36

Note: In-lieu of health benefit pay shown for Trainee Nos. 1 - 5

Recommendation

Williams must return $8,586 to ETP. In the future, the Contactor should ensure all trainees meet the minimum wage requirements.

FINDING NO. 2 – Noncompliance with ETP Recordkeeping Requirements

Williams failed to maintain any original training records and therefore did not comply with ETP recordkeeping requirements for 100 percent of the training hours reimbursed by ETP for the 263 trainees placed during the term of the Agreement. As a result, we questioned $546,957 in training costs claimed for these trainees as detailed in Attachment B – Table of Questioned and Disallowed Trainees.

Title 22 California Code of Regulations (CCR), Section 4442(a) requires the Contractor to maintain and make available records that clearly document all aspects of training. All classroom/laboratory training records must include hours of attendance and dates of training, be certified daily by the instructor during training, signed (or initialed) daily by the trainee, and signed by the trainer for each type of training.

Paragraph 5(a.1) of the Agreement states in part that, "Records must be retained within the control of the primary Contractor and be available for review at the Contractor's place of business within the State of California…"

Prior to our audit, representatives of Williams contacted ETP auditor to disclose that all the original training records i.e. paper rosters maintained by Williams during the Agreement were recently found to be missing. This discovery had been made by Williams' current management during final preparations for the audit. Williams indicated the records were last seen during February 2010, when they had been reviewed by an independently retained auditor and the administrative subcontractor, who reviewed the records to ensure all rosters were accounted for prior to the audit. According to Williams, at the end of that process, the records had been placed in the office work area of a prior employee.

Williams' representatives stated to ETP auditors that the company had conducted its own internal investigation regarding the loss of the training records but could not determine what had happened to them or who was responsible for their disappearance. ETP auditors interviewed members of Williams' executive staff and management team, along with the administrative subcontractor. All individuals stated to ETP auditors that the records had been maintained and had been in the control of Williams up till February 2010. In addition, ETP auditors reviewed ETP monitoring reports on file for the Agreement and also spoke with the ETP monitor. Information provided by the monitor indicated that original training records had been subject to multiple spot reviews by the ETP monitor during the term of the Agreement. ETP monitor reports documented those reviews and indicated that Williams' rosters reviewed by the monitor did meet the requirements of Title 22, Section 4442.

Based on the information noted above, ETP auditors reasonably concluded that original training records, which supported that training had occurred as reported to ETP, had existed but were now missing. Furthermore, based on existing information, the cause of their disappearance could not be determined. However, since the records were not available for review during the audit, ETP auditors also determined that Williams did not comply with ETP regulations and the terms of the Agreement. As a result, in lieu of other adequate and substantial evidence, 100 percent of the training hours reimbursed by ETP were unsupported.

Therefore, ETP auditors obtained and reviewed the following secondary source documents from Williams:

- Pre-printed daily training rosters without signatures downloaded and printed from Williams' HR staff computers.
- A few pre-printed daily training rosters with signatures that had been electronically scanned during the period of training.
- Internal tracking/summary sheets of class/lab hours.
- Detailed training class schedules that included training dates, roster numbers, start/end time, and training topics.
- Internal accounting source documents including expense account ledger reports, paid training provider invoices, and copies of paid checks verifying amounts paid to training subcontractors during the period of training in question.

Based on that review, ETP auditor determined that the pre-printed training rosters, internal tracking/summary sheets, and the detailed class training schedules correlated with ETP's record of the training hours submitted by Williams during the Agreement as maintained in ETP's Internet Class/Lab tracking system. The auditor noted that ETP Class/Lab tracking data regarding trainee names, roster numbers, training types, and the dates of training correlated with the pre-printed training rosters, scanned copies of rosters with signatures, internal tracking/summary sheets, and the detailed class training schedules.

Furthermore, ETP auditor's review of Williams' accounting source records, as listed above, did support that Williams had incurred and paid direct costs for ETP approved training from ETP approved training subcontractors during the period of reported training within the term of the Agreement. In an evaluation and analysis of the amounts paid, ETP auditor scheduled only payments that related to detailed invoices for training services that clearly showed those services were for the direct delivery of training courses listed the curriculum included in Exhibit B of the Agreement or for other training services directly related to the Agreement.

Finding No. 1 (Table A) included below details the total payments made by Williams to five ETP approved training subcontractors utilized to deliver training to ETP enrolled trainees during the term of the Agreement and/or payments for ETP related training services.

ETP Approved Training Subcontractors	Payments by Williams for Subcontracted Direct Delivery of ETP Training	Payments by Williams for Subcontracted ETP Training Related Services	Totals
International Optimum Solutions, LLC	$215,965.20	$0.00	$215,965.20
EMS Consulting Group	$1,152.00	$0.00	$1,152.00
Resman Group International	$482,315.03	$35,127.67	$517,442.70
The Ultimate Professional	$1,490.00	$0.00	$1,490.00
University of California, Riverside	$52,488.00	$0.00	$52,488.00
Total Payments by Williams Related to ET06-0260 Training			**$788,537.90**

As the table above indicates, Williams' actual costs for ETP training exceeded the $546,957 reimbursed by ETP during the Agreement. Based on that fact and in conjunction with the correlation between Williams' secondary source training documents and ETP records, ETP auditors concluded that a reasonable assurance existed that training as reimbursed by ETP occurred. Thus, our report notes only questioned costs associated with our finding of non-compliance with ETP recordkeeping requirements.

Recommendation

In the future, the Contractor must comply with all ETP recordkeeping requirements. Missing, inaccurate, or incomplete training records may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

(a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.

(b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.

(1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.

(2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.

(A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:

(1) Refuse to hear the matter, giving the appellant written reasons for the denial; or

(2) Conduct a hearing on a regularly-scheduled meeting date; or

(3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.

(B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.

(C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.

(c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.

(d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.
Reference: Sections 10205(k), 10207, Unemployment Insurance Code.
Effective: April 15, 1995

Amended: December 30, 2006