



COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

OSCAR VALDEZ
AUDITOR-CONTROLLER

CONNIE YEE
CHIEF DEPUTY AUDITOR-CONTROLLER

June 1, 2026

TO: Each Supervisor

FROM: Oscar Valdez
Auditor-Controller

Robert G. Campbell
Assistant Auditor-Controller / Chief Audit Executive

SUBJECT: **HUB CITIES CONSORTIUM – A DEPARTMENT OF ECONOMIC OPPORTUNITY PROGRAMS PROVIDER - CONTRACT COMPLIANCE REVIEW**

With the support and active participation of the Department of Economic Opportunity (DEO) and Hub Cities Consortium (HCC or Agency), we completed a contract compliance review of HCC. DEO contracts with HCC to provide various Program services (see Attachment II for a description of services).

HCC maintained documentation to support the eligibility and Program services provided to a sample of clients reviewed. However, we noted opportunities for the Agency to strengthen their internal controls and improve compliance with applicable requirements. Specifically:

- In HCC’s single audit reports (audit reports) for FYs ended June 30, 2023, and June 30, 2024, the independent auditors reported material weaknesses and significant deficiencies in the Agency’s internal controls over financial reporting and major programs (e.g., lack of procedures to ensure financial statements are accurate and complete, audit reports not completed by the required deadline, inadequate system for documenting invoice support for all accrued DEO Program expenditures).
- HCC did not equitably allocate some of their shared and indirect expenditures to all benefiting programs, as required.

NUMBER OF RECOMMENDATIONS
PRIORITY 1 2
PRIORITY 2 0
PRIORITY 3 0

FAST FACTS

DEO paid HCC approximately \$2.2 million on a cost-reimbursement basis from September 2024 through March 2025.

At the time of our review, HCC had offices in the Fourth Supervisorial District, and provided services to residents in the Second and Fourth Supervisorial Districts.

HCC does not currently contract with any other County departments.

Each Supervisor

June 1, 2026

Page 2

For details of our review, please see Attachment I. HCC's response (included in Attachment III) indicates agreement with one and partial agreement with one of our findings and recommendations.

The issuance of this report was delayed due to multiple factors, including staffing changes and the completion of other high-priority assignments. We thank HCC, DEO management, and staff for their cooperation and assistance during our review. If you have any questions please call us, or your staff may contact Bill Evans at wevans@auditor.lacounty.gov.

OV:CY:RGC:BE:SGD:hm

Attachments

c: Joseph M. Nicchitta, Chief Executive Officer
Edward Yen, Executive Officer, Board of Supervisors
Kelly LoBianco, Director, Department of Economic Opportunity
Audit Committee
Countywide Communications

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Robert G. Campbell
ASSISTANT AUDITOR-CONTROLLER

Bill Evans
DIVISION CHIEF

COUNTYWIDE CONTRACT MONITORING DIVISION

Report #X25208

DEPARTMENT OF ECONOMIC OPPORTUNITY HUB CITIES CONSORTIUM CONTRACT COMPLIANCE REVIEW

BACKGROUND AND SCOPE

We conducted a contract compliance review of Hub Cities Consortium (HCC or Agency) at the request of the Department of Economic Opportunity (DEO), and in accordance with our Fiscal Year (FY) 2024-25 monitoring plan.

DEO contracts with HCC to provide Workforce Innovation and Opportunity Act (WIOA) Adult and Dislocated Worker, WIOA Rapid Response, Youth@Work, and Los Angeles Regional Initiative for Social Enterprise Program services. These Programs assist individuals, particularly those with barriers to employment, by increasing access to and opportunities for employment, education, training, and supportive services needed to succeed in the workforce. For a description of the Programs reviewed, please see Attachment II.

We reviewed a sample of expenditures from September 2024 through March 2025 to determine whether HCC appropriately accounted for and spent DEO Program funds to provide the services outlined in their County contract and in accordance with federal and State guidelines. We also reviewed the Agency's FY 2023-24 Closeout Reports to ensure the reports were supported by the Agency's accounting records. In addition, we evaluated the Agency's financial records, internal controls over cash, revenue, disbursements, payroll and personnel, and compliance with their County contract and other applicable guidelines. Furthermore, for a sample of clients, we reviewed documentation to support their eligibility and verified that the required Program services were provided. Our review covered one contract with HCC, for which DEO paid the Agency approximately \$2.2 million on a cost-reimbursement basis from September 2024 through March 2025. At the time of our review, HCC had offices in the Fourth Supervisorial District and provided services to residents of the Second and Fourth Supervisorial Districts.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RECOMMENDATION
1	<p>Internal Control Issues Identified in Single Audit Reports - We reviewed HCC's single audit reports (audit reports) for FYs ended June 30, 2023, and June 30, 2024, and noted the independent auditors reported material weaknesses and significant deficiencies in the Agency's internal controls over financial reporting and major programs. For example, the independent auditors noted HCC did not:</p> <ul style="list-style-type: none"> Complete a formal and thorough review of their financial statements to ensure they were accurate and complete. As a result, HCC's Schedule of Expenditures of Federal Awards was inaccurate and incomplete for both FYs, and required significant revisions identified by the auditors. 	<p>Priority 1 - HCC management establish appropriate policies and procedures to correct the material weaknesses and significant deficiencies identified in HCC's single audit reports for FYs June 30, 2023, and June 30, 2024.</p> <p>Agency Response: Agree Target Implementation Date: June 1, 2026</p>

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Robert G. Campbell
ASSISTANT AUDITOR-CONTROLLER

Bill Evans
DIVISION CHIEF

COUNTYWIDE CONTRACT MONITORING DIVISION

Report #X25208

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION	
ISSUE	RECOMMENDATION
<ul style="list-style-type: none"> Ensure their audit reports for the FY ended June 30, 2024, were completed by the reporting deadline required by Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Section 200.512, their County contract, and DEO Directives. Specifically, HCC's audit reports for the FY ended June 30, 2024, were due by March 31, 2025, but were not completed until November 25, 2025 (approximately eight months late). Maintain an adequate system for documenting invoice support and establishing a clear audit trail to ensure transactions are reviewed and approved by the appropriate personnel for accrued expenditures. As a result, the auditors identified \$29,106 in inadequately supported accrued expenditures for the DEO Programs. According to the audit report, HCC subsequently recorded an adjusting entry to reverse the questioned expenditures. <p>HCC's June 30, 2024 audit reports (dated November 25, 2025), indicated HCC had not yet corrected these internal control issues.</p> <p>Impact: Increased risk of:</p> <ul style="list-style-type: none"> Material errors or misstatements in the Agency's financial records are not being prevented, detected, and corrected timely. Fraud, misappropriation of funds, the County being overcharged, funding sources disallowing and/or questioning costs, and Program funds not being used for client services in accordance with their County contract and applicable federal and State guidelines. Agency management not having access to complete and accurate financial information to make informed operational and financial decisions, which can impact the Agency's ability to deliver DEO Program services. 	

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Robert G. Campbell
ASSISTANT AUDITOR-CONTROLLER

Bill Evans
DIVISION CHIEF

COUNTYWIDE CONTRACT MONITORING DIVISION

Report #X25208

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION	
ISSUE	RECOMMENDATION
<ul style="list-style-type: none"> Noncompliance with federal, State, and County financial audit requirements can result in penalties, contractual remedies, and/or legal ramifications, and can impact the Agency's ability to deliver DEO Program services. 	
<p>2 Inappropriate and Unsupported Cost Allocation - HCC did not equitably allocate some of their shared and indirect expenditures to all benefiting programs, as required by Uniform Guidance, Sections 200.405 and 200.414, and their County contract. Specifically, the Agency allocated salaries to employees who worked on multiple programs based on the hours reported on their timecards. However, according to our employee and Agency management interviews, some employees reported hours on their timecards based on predetermined rates rather than actual conditions, as required.</p> <p>In addition, we noted the Agency allocates their shared non-payroll and indirect expenditures based on employees' salaries. However, as discussed above, the Agency did not appropriately allocate their shared payroll expenditures to all benefiting programs.</p> <p>As a result, HCC must reallocate all shared and indirect expenditures charged to the DEO Programs during FY 2024-25 to ensure expenditures are equitably allocated to all benefiting programs as required.</p> <p>Impact: Increased risk of the County being overcharged, funding sources disallowing and/or questioning costs, and Program funds not being used for client services in accordance with their County contract and applicable federal and State guidelines.</p>	<p>Priority 1 - HCC management:</p> <p>a) Reallocate all shared and indirect expenditures charged to the DEO Programs during FY 2024-25 based on equitable and allowable cost allocation methodologies, and repay DEO for any excess amounts received, if applicable.</p> <p>b) Ensure shared employees' time is billed based on actual conditions.</p> <p>c) Ensure all shared and indirect expenditures are equitably allocated to all benefiting programs based on allowable methodologies.</p> <p>Agency Response: Partially Agree Target Implementation Date: June 1, 2026</p> <p>While HCC partially agreed with our finding, claiming it was an isolated and limited incident, the Agency indicated that they will implement our recommendation.</p> <p>In accordance with their resolution process, DEO will work with HCC to ensure our recommendation is implemented.</p>

For more information on our auditing process, including recommendation priority rankings and the resolution process, visit <http://auditor.lacounty.gov/contract-monitoring-audit-process-information/>

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Attachment II
Page 1 of 1

Robert G. Campbell
ASSISTANT AUDITOR-CONTROLLER

Bill Evans
DIVISION CHIEF

COUNTYWIDE CONTRACT MONITORING DIVISION

Report #X25208

DEPARTMENT OF ECONOMIC OPPORTUNITY HUB CITIES CONSORTIUM (HCC) CONTRACT COMPLIANCE REVIEW

PROGRAM DESCRIPTIONS

The Department of Economic Opportunity contracts with HCC to provide services for the following Programs:

- **Workforce Innovation and Opportunity Act (WIOA) Adult and Dislocated Worker Program** - assists adults, including those who have been terminated or laid off, or have received notification of termination or layoff, homeless, and ex-offenders in obtaining employment, retaining their jobs, and increasing their earnings by completing a comprehensive employment assessment of the clients, providing career counseling and planning, assisting with job searches and resume preparation, and when necessary, offering customized occupational and/or on-the-job training.
- **WIOA Rapid Response Program** - proactively assists employers and workers of companies facing a significant reduction in their workforce in career transition to mitigate the impact of mass layoffs, business closures, and natural or other disasters.
- **Youth@Work Program** - provides training, education, and employment services to the following youth populations:
 - WIOA Out-of-School Youth - youth and young adults between the ages of 16 and 24 who are out-of-school and meet one or more barriers to employment, including but not limited to homelessness, disabilities, low-income, foster care, dropping out of school, and/or being an offender.
 - California Work Opportunity and Responsibility to Kids - youth between the ages of 14 and 18, and if age 19, also enrolled in the Cal-Learn Program.
 - Probation - juvenile justice involved youth directly referred by the County of Los Angeles Probation Department.
 - Work Based Learning (formerly Foster, System-Involved Youth, and Other Underserved Youth) - youth and young adults between the ages of 14 and 24 who are in the foster care system; low-income youth including former foster, probation, or homeless youth; youth residing in high-poverty areas; youth receiving free or reduced lunch or eligible for CalFresh benefits; Lesbian, Gay, Bisexual, Transgender, Queer and/or Questioning youth; and youth with direct or indirect involvement in public systems including, but not limited to, the justice system, child welfare, public housing, and immigration.
- **Los Angeles Regional Initiative for Social Enterprise Program** - a Measure H-funded program that provides training, transitional employment, paid work experience, and supportive services to individuals who are homeless or have a history of homelessness and/or incarceration, to assist them in secure competitive, unsubsidized employment.



April 23, 2026

Andrew G. Pasmant
Interim Executive Director

Board of Directors:

Eddie De La Riva

Chairperson

Maria Davila

Vice-Chairperson

Elizabeth Alcantar

Marco Barcena

Jonathan Sanabria

Rita Soto

Serving residents of:

Bell Gardens

Cudahy

Huntington Park

Lynwood

Maywood

South Gate

4354 Tweedy Blvd.
South Gate, CA 90280
Phone: (323) 586-4700
Fax: (323) 586-4701
TTY: (323) 586-4707
www.hubcities.org


Oscar Valdez, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, CA 90012

Re: Action Plan and Response to the Auditor-Controller's Contract Compliance Review of Hub Cities Consortium (Hub Cities) Department of Economic Opportunity Contract (DEO)

Dear Mr. Valdez:

Attached is Hub Cities' response to the Contract Compliance Review conducted by the Auditor-Controller at the request of DEO for our contract to provide DEO Program services. Hub Cities partially agrees with the recommendations made by the Auditor-Controller contained in their report and has taken corrective actions to address the recommendations as detailed in the attached Agency Action Plan/Response.

If you have any questions or require additional information, please contact Andrew G. Pasmant, at 323-586-4710 or pasmant@hubcities.org.

Sincerely,

Andrew G. Pasmant
Interim Executive Director



**DEPARTMENT OF ECONOMIC OPPORTUNITY
HUB CITIES CONSORTIUM (HUB CITIES) ACTION PLAN/ RESPONSE**

ISSUE 1: INTERNAL CONTROL ISSUES IDENTIFIED IN SINGLE AUDIT REPORTS

A/C Recommendation	Hub Cities management establish appropriate policies and procedures to correct the material weaknesses and significant deficiencies identified in Hub Cities' single audit reports for Fiscal Years June 30, 2023 and June 30, 2024.
Priority	PRIORITY 1
Agree/Disagree	Agree
Agency Action Plan ¹	<p>A. Inaccurate and Incomplete Schedule of Expenditures of Federal Awards (SEFA) ^{*(1)}</p> <p><u>Corrective Actions Taken:</u></p> <ul style="list-style-type: none"> Adjustments were made immediately to the FY 2024 SEFA and financial statements based upon the initial findings of the independent auditor. <p><u>Planned Corrective Actions:</u></p> <ul style="list-style-type: none"> HCC will implement appropriate review procedures effective immediately to ensure that the 2025 SEFA reflects accurate information and proper identification of expenditures funded by federal awards. This will correct the material weaknesses and significant deficiencies noted during the FY 2023 and 2024 audits. <p>B. Late Audit Report Submission</p> <p><u>Corrective Action Taken:</u></p> <ul style="list-style-type: none"> FY 23-24 Audit was completed and submitted. <p><u>Planned Corrective Actions:</u></p> <ul style="list-style-type: none"> HCC will begin audit preparation earlier by implementing interim fieldwork procedures, pre-close schedules, as well as ensuring a timely year-end closing process. The FY 2025 audit has been scheduled to start early May 2026, and HCC will schedule the commencement of the FY 25-26 audit in mid-December 2026. Implement regular status check-ins during the audit to monitor progress and status of pending Provided by Client (PBC) items, and ensure established deadlines are met. <p>C. Inadequate Documentation for Accrued Expenditures^{**}(2)</p> <p><u>Corrective Actions Taken:</u></p> <ul style="list-style-type: none"> Upon notification of the finding, HCC reviewed the identified accruals related to six vendors and seven invoices for vocational training services. All executed

¹ In this section, the Agency should only describe the efforts they plan to take, or any steps already taken to implement the recommendation. Any other information should be included in the Additional Information section below.

² In this section, the Agency can provide any background or clarifying information they believe is necessary.

	<p>individual training agreements for the seven invoices were maintained and on file, but final invoices had not been submitted by vendors</p> <ul style="list-style-type: none"> • Since the audit review, three invoices have been submitted and have been paid (2 in full and 1 prorated dropped) for a total of \$4,466.75. • Since the Audit review, it has been determined that one participant completed the training course. Based upon discussion with DEO, HCC will issue a \$6,499 payment to the vendor based on the supporting documentation in the file, regardless of the vendor's lack of an invoice. <p><u>Planned Corrective Actions:</u></p> <ul style="list-style-type: none"> • HCC will revise the Individual Training Agreement (ITA) to establish a defined deadline for invoice submission. • HCC will update its policies to allow payment of vendors when required supporting documentation for each payment milestone is on file, regardless of whether invoices have been submitted. • HCC will return funds to the DEO related to the vendor that closed or ceased operations, as well as the remaining unpaid balances for three participants who dropped out of training for a total of \$18,140.25 • HCC will implement procedures to actively monitor and follow up with vendors regarding missing invoices prior to the close of the fiscal year.
<p>Target Implementation Date</p>	<p>06/01/2026</p>
<p>Additional Information (optional)²</p>	<p><u>Footnotes:</u></p> <p>*⁽¹⁾ The finding of the Independent Auditor related to the CalWorks/Temporary Assistance to Needy Families (TANF) program in the amount of \$321,989.</p> <p>**⁽²⁾ All vocational training accruals are based on executed Individual Training Agreements.</p> <p>**⁽²⁾ Funds are not paid to any vendor without the supporting documentation being on file.</p> <p>**⁽²⁾ Funds associated with these accruals remain in HCC's bank account.</p>

<p>ISSUE 2: INAPPROPRIATE AND UNSUPPORTED COST ALLOCATION</p>	
<p>A/C Recommendation</p>	<p>a) Reallocate all shared and indirect expenditures charged to the DEO Programs during FY 2024-25 based on equitable and allowable cost allocation methodologies, and repay DEO for any excess amounts received, if applicable.</p> <p>b) Ensure shared employees' time is billed based on actual conditions.</p> <p>c) Ensure all shared and indirect expenditures are equitably allocated to all benefiting programs based on allowable methodologies.</p>
<p>Priority</p>	<p>PRIORITY 1</p>
<p>Agree/Disagree</p>	<p>Partially Agree</p>
<p>Agency Action Plan¹</p>	<p><u>Corrective Actions Taken:</u></p>

¹ In this section, the Agency should only describe the efforts they plan to take, or any steps already taken to implement the recommendation. Any other information should be included in the Additional Information section below.

² In this section, the Agency can provide any background or clarifying information they believe is necessary.

	<ul style="list-style-type: none"> • HCC has reviewed the matter with staff and determined that this was an isolated and limited incident. • Management conducted an all-staff training on Friday, April 17th. to review time reporting requirements. During the training, staff were reminded that hours should be recorded based on actual hours worked on each program. • All staff were provided with a billing matrix to improve their understanding of applicable billing codes and to ensure their time is allocated based on the actual tasks performed for each assigned program. <p><u>Planned Corrective Actions:</u></p> <ul style="list-style-type: none"> • Management will review FY 2024–2025 shared and indirect expenditures to identify any further or potential allocation discrepancies and will make the adjustments, if determined to be necessary. • Management will ensure that HCC follows the approved Direct Cost Allocation Plan.
<p>Target Implementation Date</p>	<p>06/01/2026</p>
<p>Additional Information (optional)²</p>	

¹In this section, the Agency should only describe the efforts they plan to take, or any steps already taken to implement the recommendation. Any other information should be included in the Additional Information section below.

²In this section, the Agency can provide any background or clarifying information they believe is necessary.