

MEMORANDUM

March 12, 2010

TO: MFP Committee Meeting as the Audit Committee

VIA: Duchy Trachtenberg, Chair 
Management and Fiscal Policy Committee

FROM: Sue Richards , Senior Legislative Analyst
Leslie Rubin, Legislative Analyst
Office of Legislative Oversight

SUBJECT: **Update on the Inspector General's Four-Year Work Plan and Update on DHHS Contracting Practices**

On March 16th, the MFP/Audit Committee will hold its first meeting in 2010. The agenda for the meeting includes updates on two items discussed by the Committee in 2009: 1) the four-year work plan of the Office of the Inspector General and 2) Department of Health and Human Services (DHHS) fiscal monitoring practices. This memorandum summarizes information relevant to these updates.

The following people are scheduled to attend today's meeting:

Department	Representative(s)
Office of the Inspector General	Tom Dagley, Inspector General
Department of Health and Human Services	Uma Ahluwalia, Director Sherry White, Chief Operating Officer

1. FOUR-YEAR WORK PLAN FOR THE OFFICE OF THE INSPECTOR GENERAL

On January 22, 2010, the Inspector General transmitted to the Council President a copy of his office's four-year work plan for fiscal years 2010-2013. (©1) Section 2-151 of the Montgomery County Code establishes the Office of the Inspector General (OIG) and assigns its goals and responsibilities. Section 2-151(i), Work Plan, requires the Inspector General to adopt a four-year work plan within six months of being appointed, and allows the Inspector General to amend the plan during his term.

The OIG's work plan outlines challenges facing the County, the process for developing the work plan, long-term and short-term projects for FY10-13, and a discussion of the relationship between the OIG's work plan and the Office's budget.

The table on the next page summarizes the long-term and short-term projects in the OIG's new work plan.

Summary of Projects in OIG's FY 2010 to FY 2013 Work Plan

	Increase Efficiency and Effectiveness	Prevent and Detect Fraud, Waste, and Abuse	Increase Ethical, Fiscal, and Legal Accountability
Long-Term Action Plans	<ul style="list-style-type: none"> • WSSC – spending in water and sewer construction projects and contract • MCG – spending related to road or facility construction and maintenance projects and contracts • MCG – modernizing of information and telecommunication systems • MCG – review of Purchasing Card Program spending • All Council-Funded Orgs. – examine controls to prevent and detect duplicate or improper vendor payments 	<ul style="list-style-type: none"> • Investigation of complaints received by the OIG • Responses to leaders to resolve issues informally 	<ul style="list-style-type: none"> • MCG – review the adequacy of administrative and legal protection for whistleblowers • All Council-Funded Orgs. – assess effectiveness of management controls for health care service spending • All Council-Funded Orgs. – use computer-assisted financial auditing tools to review payroll and other distributions to employees and retirees.
Short-Term Action Plans	<ul style="list-style-type: none"> • MCG IT Project Controls – OIG currently evaluating 12/09 changes to the Statement of Work for the ERP project. • MCG and WSSC Procurement – ongoing review of contract spending (Feb. 2010 phase one report) • MCG Procurement – ongoing review of DHHS contracts for housing and other services • MCG – review of best practices for preserving accountability and transparency for County use of Federal stimulus funds • All Council-Funded Orgs. – review of appropriateness/cost of selected land development projects and real estate purchases 	<ul style="list-style-type: none"> • Investigation of complaints received by the OIG • Promote OIG fraud hotline to County employees and contractors • Investigate potentially fraudulent payments to contractors and grantees reported to the OIG • Responses to leaders to resolve issues informally 	<ul style="list-style-type: none"> • Payments to MCG Volunteer Fire & Rescue Assoc. (report release in February 2010) • Follow-up work related to MCG Disability Retirement Program • Interim report related to the MCG Tuition Assistance Program • Field work and reporting related to MCFRS vehicle accident and related investigation • MCG and Ethics Commission – review of effectiveness of ethics laws, management controls, and investigation practices used to prevent and detect fraud, waste, and abuse • Council Audit Committee – review governance best practices regarding risk assessment, internal auditing, anti-fraud initiatives, and prevention of ethical breaches • Establish OIG citizens' advisory group to insure adequate input on accountability issues

2. UPDATE ON DHHS' FISCAL MONITORING

The Committee last received an update on DHHS fiscal monitoring from Ms. Ahluwalia on November 10, 2009. Since then, DHHS' Fiscal Monitoring Workgroup submitted a report with findings and recommendations to the County Executive in December 2009 (©10). DHHS representatives are scheduled to attend today's meeting and update Committee members on the Executive's response to the Workgroup's report.

The Workgroup was chaired by DHHS' Chief Operating Officer. In addition to vendors' representatives, the Workgroup included staff from:

- DHHS' financial operations;
- DHHS' contract monitors;
- The Department of Finance;
- The Office of the County Attorney;
- The Office of Management and Budget;
- The Office of the County Council.

The Workgroup's report:

- Summarizes key differences between contract monitoring and contract auditing;
- Examines what agencies in Montgomery County and other jurisdictions are doing with respect to contract monitoring;
- Examines different models for contract monitoring;
- Examines different types of training related to contract monitoring;
- Describes the impact of contract monitoring on DHHS' and vendors' resources; and
- Identifies two recommendations related to standardizing contract monitoring practices for cost reimbursement contracts and related to resources for contract monitoring.

Attachment	Begins at
Office of the Inspector General Four-Year Work Plan, FY 2010-2013	©1
December 2009 Report of the DHHS Fiscal Monitoring Workgroup	©10

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OFFICE OF INSPECTOR GENERAL

Thomas J. Dagley
Inspector General

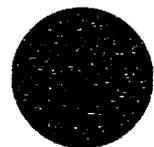
MEMORANDUM
January 22, 2010

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MONTGOMERY COUNTY
COUNCIL
2010 JAN 26 PM 3:38

TO: Nancy Floreen, Council President
Isiah Leggett, County Executive

FROM: Thomas J. Dagley
Inspector General



SUBJECT: Office of Inspector General Four-Year Work Plan

The attached Montgomery County Office of Inspector General (OIG) four-year work plan for fiscal years 2010-2013 focuses on our fundamental mission to increase the efficiency and effectiveness of County programs and operations, while preventing and detecting fraud, waste, and abuse, and increasing ethical, fiscal, and legal accountability.

This work plan meets the requirements of Montgomery County Code §2-151 and conforms to standards of the Association of Inspectors General and other oversight organizations for the inspector general community. Distribution of this plan was postponed until January 2010 in order to consider the impact of fiscal years' 2010 and 2011 budget reductions by County leaders on the OIG and County operations overall.

To develop this work plan, we relied on the participation of key stakeholders, including County employees and contractors, community organizations, and individual residents. In addition, we considered the measurable performance results for the work plan covering fiscal years 2006 through 2009. These results are summarized in Appendix A of the annual report for fiscal year 2009 which can be found at www.montgomerycountymd.gov/ig. As we monitor our performance results for fiscal year 2010 and consider the County's changing economic climate, we may find it necessary to modify the action plans in this work plan. In this regard, please consider statements in the "Linking Strategic Work Plans with Budgets" section on page 7 of this work plan regarding County resources that may be needed to conduct meaningful fraud prevention, detection, and investigation work for federal stimulus package dollars received by Montgomery County during the fiscal years 2010 through 2013.

We will continue our efforts to strengthen professional relationships with key stakeholders and coordinate our work with the audit, inspector general, and law enforcement communities. We would like to acknowledge the invaluable assistance provided to this Office by the County Council, Executive management, and leaders of the County's independent organizations with whom we work.

cc: Council Members
Council Staff Director



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Office of Inspector General Four-Year Work Plan Fiscal Years 2010-2013

The Planning Process

Major Challenges Facing Montgomery County

Throughout the planning process of this four-year work plan, Montgomery County leaders faced the significant fiscal challenge of providing needed government services to its residents during an economic recession. As of December 31, 2009, all Council-funded organizations including the Office of Inspector General (OIG) had faced significant budget reduction targets for fiscal years 2010 and 2011. These budget reductions and their impact on operating programs and capital projects funded by the Council were factors in finalizing this four-year work plan.

Although the OIG work plan published in August 2005 for fiscal years 2006-2009 was not modified throughout its implementation, it is reasonable to assume that this plan covering fiscal years 2010-2013 may need to be modified in the first half of calendar year 2011 after reassessing the County's budget situation.

Other Challenges

In our fiscal year 2009 annual report (accessible at www.montgomerycountymd.gov/ig), the following generally accepted principles for inspectors general were identified to emphasize the importance of the independence of the Inspector General position and other factors that impact the effectiveness of Montgomery County's OIG:

- inspectors general should be appointed without regard to political affiliation;
- bonuses or compensation increases should not be accepted by inspectors general from their organization to discourage organizations from using monetary incentives to pressure inspectors general;
- inspectors general compensation should be comparable to other senior agency officials;
- inspectors general should have access to independent legal counsel, avoiding potential conflicts of interest with agency counsels;
- all public inspectors general reports should be posted on agency websites within three working days of release;
- in the event of an Inspector General vacancy, an independent panel process should be used to recommend possible replacements; and,
- annual funding levels requested by an Inspector General and the funding level approved should be delineated, allowing interested parties to determine whether funding cuts may be used to interfere with the work of an Inspector General.

With regard to the standard of independence, according to the Association of Inspectors General, inspectors general and OIG employees involved in performing or supervising any assignment should be free from personal or external impairment to independence and should constantly maintain an independent attitude and appearance. Inspectors general are responsible for establishing and maintaining independence so that OIG opinions, conclusions, judgments, and recommendations will be

impartial and viewed by others as impartial. Personal impairment includes, for example, official, professional, personal, or financial relationships that might appear to lead the OIG to limit the extent of work, to limit disclosure, or to alter the outcome of work. Factors external to the OIG that can restrict efforts or interfere with the OIG's ability to form independent and objective opinions should be avoided, such as interference or undue influence in the selection, appointment, and employment of the Inspector General and OIG employees.

Several factors impacting the effectiveness of the Montgomery County OIG were considered during the preparation and development of this work plan and are likely to be challenges during fiscal years 2010-2013:

- Providing the Inspector General access to independent legal counsel has been a significant concern for several OIG projects. In early fiscal year 2010, the Council amended County law to provide the Inspector General with access to independent legal services.
- Working with County leadership to be able to routinely access accurate and reliable revenue, expenditure, personnel, and operational data related to Council-funded programs/activities continued to be a significant OIG challenge, as was balancing our reporting requirements with the need to protect sensitive and confidential data. Furthermore, ensuring the confidentiality of OIG requests to management for information needed to conduct audits, reviews, and investigations periodically hampered the effectiveness of the OIG. At the same time, however, a barrier was addressed in May 2009 by Maryland State government leaders when Article 29 of State law regarding the Washington Suburban Sanitary Commission (WSSC) was amended, authorizing the County Council or its duly authorized agents to audit and examine the books and records of the WSSC. The amendment, effective October 1, 2009, clarifies the authority of the OIG to access WSSC information during the work plan period.
- In fiscal year 2009 and continuing into fiscal year 2010, the Inspector General continued to work with County leaders to increase the independence and effectiveness of the OIG by making compensation for its employees equitable when compared to other County officials. This work was controversial at times; however, it led to the resolution of a pay disparity for one OIG employee in October 2009, incident to the modification of Office of Human Resources policy.

Plan Development

The OIG goals and strategies that were developed in 2005 have been updated in the Matrix below. This four-year work plan was developed by concentrating on key provisions for an effective County governance system — accountability for management actions; fiscal accountability; transparency in operations; and independence in internal and external audits. Our planning process comprised of three main steps: (1) identifying a universe of Council-funded programs and activities; (2) conducting risk assessment of programs, activities, and related management practices; and, (3) developing a plan to conduct appropriate audits, reviews, and investigations. The universe consisted primarily of programs and activities in the Council's approved fiscal year 2010 operating and capital budgets.

To determine which projects would be included in this plan, we used standardized, and in some cases, function-specific risk factors to determine those projects having a higher risk. Standard risk factors include: materiality; impact on operations; visibility and public sensitivity; public interest; prior audit/investigative attention and results; and loss potential, including fraud and other vulnerabilities.

OIG Strategy Matrix

OFFICE OF INSPECTOR GENERAL STRATEGY MATRIX

Goals And Strategies	<p>1. The OIG provides timely, accurate, and useful information that contributes to the efficiency and effectiveness of Montgomery County government and independent County agencies.</p> <p>Strategies:</p> <ul style="list-style-type: none"> • Identify major management challenges facing Montgomery County • Strengthen professional relationships <p>Conduct:</p> <ul style="list-style-type: none"> • Briefings to increase the awareness and effectiveness of the OIG • Audits and reviews with County-wide improvement potential, that provide timely and valuable feedback to departments on sensitive and higher-risk operations, which result in reports that maximize value to County taxpayers • Fraud, waste, and abuse investigations to detect improper or illegal conduct and report the results to decision-makers in a timely manner <p>2. The OIG maximizes resources and leverages technology in support of our mission.</p> <p>Strategies:</p> <ul style="list-style-type: none"> • Manage the efficient use of limited OIG resources • Leverage cutting-edge technology available through, for example, the Department of Technology Services <p>3. The OIG obtains and develops the human resources needed in support of our mission.</p> <p>Strategies:</p> <ul style="list-style-type: none"> • Maintain an organization that attracts, develops, and retains a talented and diverse workforce • Implement quality assessment and recommendations by oversight organizations such as the Association of Inspectors General • Maintain compliance with educational/professional training requirements per inspector general community standards
Key Stakeholders¹	<p>County citizens County Council, directors, and staff County Executive, Chief Administrative Officer, department directors, and division chiefs Senior leaders and staff of each independent County agency County employees Employee and community organization leaders</p>

The audit and review action plans that follow in Table 1 are categorized according to key success factors. Specific objectives and the methodology for audits and reviews are not included in this work plan. For many of the projects listed, this level of detail will not be finalized until the planning phase of the project is completed. The investigative plans involving the prevention and detection of fraud, waste, and abuse are also included.

¹ Stakeholders are defined as those individuals or groups that are or might be affected by the OIG's actions and effectiveness. From July through September 2009, the Inspector General solicited input for this work plan from elected County officials and other senior leaders. In addition, the Inspector General received numerous suggestions from County employees, contractors, and residents after soliciting input via OIG webpage postings, emails, and other outreach efforts.

Table 1— Key Factors and Action Plans

Key Success Factors	Increase Efficiency and Effectiveness	Prevent and Detect Fraud, Waste, and Abuse	Increase Ethical, Fiscal, and Legal Accountability
<p>Longer-Term Action Plans (FY 2012-2013)</p>	<p><u>Performance Audit or Review</u> WSSC: Review the reasonableness of expenditures related to selected water and sewer construction projects and contracts</p> <p>MCG: Review the reasonableness of expenditures related to selected road or facility construction, maintenance, and other infrastructure projects and contracts</p> <p>MCG Information Technology: Assess the efficiency and effectiveness of modernizing selected information or telecommunication systems</p> <p>MCG: Review Purchasing Card Program expenditures</p> <p>All Council-funded Organizations: Determine if controls are adequate to prevent and detect duplicate vendor and other improper payments to contractors and vendors</p>	<p><u>Investigation</u> Investigate selected complaints received by the OIG regarding fraud, waste, or abuse in County and independent agency operations</p> <p><u>Quick Response Letter</u> Issue letters to senior leaders to resolve issues without using a formal audit, review or investigative report</p>	<p><u>Performance Audit or Review</u> MCG: Review the adequacy of administrative and legal protection for whistleblowers</p> <p>All Council-funded Organizations: Assess the effectiveness of management controls regarding expenditures for health care services</p> <p>All Council-funded Organizations: Use computer-assisted financial auditing tools to review the appropriateness of payroll and other distributions to employees and/or retirees</p>

^{2/} The types of information we may act upon include the following: Alleged violation of law, rules, or regulations; employee misconduct; mismanagement or waste of County funds; abuse of authority; improper use of County resources; conflict of interest; bribes or kickbacks; fraudulent travel claims; contract or procurement fraud; health care fraud; workers' compensation fraud. The types of information we do not act upon include: day-to-day management decisions; EEO complaints; employee benefits; and compensation.

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Table 1— Key Factors and Action Plans (continued)

Key Success Factors	Increase Efficiency and Effectiveness	Prevent and Detect Fraud, Waste, and Abuse	Increase Ethical, Fiscal, and Legal Accountability
<p>Short-Term Action Plans (FY 2010-2011)</p>	<p><u>Performance Audit or Review</u> MCG IT Project Controls: The OIG is currently evaluating December 2009 changes to the Statement(s) of Work for the County Government’s Enterprise Resource Planning (ERP) Project</p> <p>MCG and WSSC Procurement Practices: Ongoing review of expenditures related to selected County Government and WSSC contracts: The OIG plans to release a report on one phase of this review in February 2010</p> <p>MCG Procurement Practices: Review of selected Department of Health and Human Services contracts for housing and other services</p> <p>MCG: Review the use of best practices for preserving accountability and transparency for American Recovery and Reinvestment Act funds and other stimulus-related funds approved by the Council for County education, transportation, housing and other projects</p> <p>All Council-funded Organizations: Review the appropriateness and/or cost of selected land development projects and real estate purchases</p>	<p><u>Investigation</u> Investigate selected complaints received by the OIG regarding fraud, waste, or abuse in County and independent agency operations</p> <p>Promote the OIG fraud hotline to all employees and contractors by partnering with County leadership</p> <p>Investigate potentially fraudulent payments to contractors and grantees reported to the OIG</p> <p><u>Quick Response Letter</u> Issue letters to senior leaders to resolve issues without using a formal audit, review, or investigative report</p>	<p><u>Performance Audit or Review</u> Payments to MCG Volunteer Fire & Rescue Association (MCVFRA): The OIG plans to release a report on this review in February 2010</p> <p>MCG Disability Retirement Program: Conduct follow-up work on corrective actions recommended in the September 2008 Interim Report</p> <p>MCG Tuition Assistance Program: Release an interim report on this review in February 2010</p> <p>MCG Fire and Rescue Services Vehicle Accident and Related Investigations: Additional field work and reporting on this review will take place incident to the resolution of Civil Complaint No. 319082-V and related matters</p> <p>MCG and Ethics Commission: Review the effectiveness of ethics laws, management controls and investigation practices used to prevent and detect fraud, waste, and abuse</p> <p>Council Audit Committee: Review governance best practices regarding risk assessment, internal auditing, anti-fraud initiatives, and the prevention of ethical breaches</p> <p><u>Stakeholder requirements</u> Establish an OIG citizens’ advisory group to ensure adequate input on accountability issues</p>
<p>Communication of Results</p>	<p>Reports with findings, recommendations, and management response to the County Council and Executive, and/or leader of affected department or independent agency</p>	<p>Investigative reports to the Chief Administrative Officer (or designee), other appropriate leaders, and/or prosecutors, subject to State and County public information laws</p>	<p>Reports with findings, recommendations, and management response to the County Council and Executive, and/or leader of affected department or independent agency</p>

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Linking Strategic Work Plans with Budgets

Montgomery County Code §2-151 requires the Inspector General to submit to the County Council and Executive, within four months of confirmation, a projected budget for the OIG. Throughout the first half of fiscal year 2010, the Inspector General worked with the Director of Council Staff and representatives of the Executive's Office of Management and Budget to address OIG budget reduction targets as part of a County-wide initiative to address fiscal years' 2010 and 2011 budget deficits.³

A key to OIG effectiveness is to link the strategic work plan with the budget. To address this issue, the estimated direct (audit and investigative) and support work years needed to accomplish the short- and longer-term action plans in Table 1 are described below. These figures do not include operating funds needed to hire subject matter experts as contractors for certain audits and reviews; this issue was addressed, in part, in the Inspector General's December 11, 2009 transmittal memorandum to the Council President and Director of the Office of Management and Budget for the OIG's fiscal year 2011 budget.

In addition, the work year figures below do not address an emerging concern of the OIG and several key stakeholders regarding fraud prevention, detection, and investigation efforts needed to protect federal stimulus package funds approved for Montgomery County programs and activities.⁴

We recommend that the Council's Management and Fiscal Policy/Audit Committee address OIG resource requirements for subject matter experts and the County's overall anti-fraud efforts during the Council's fiscal year 2011 budget deliberations which begin in March 2010.

Key Success Factors Work Years	Increase Efficiency And Effectiveness	Prevent and Detect Fraud, Waste, and Abuse	Increase Ethical, Fiscal, and Legal Accountability	Support	Total Work Years
FY 2010	1.0	1.0	1.0	.5	3.5
FY 2011	1.0	1.0	1.0	.75	3.75
FY 2012	1.5	1.0	1.5	1.0	5.0
FY 2013	1.5	1.0	1.5	1.0	5.0

³ As of January 2010, approved funding for the OIG for fiscal year 2010 was \$601,840. A proposed OIG budget ceiling of \$584,960 for fiscal year 2011 was established by the Executive's Office of Management and Budget as of January 2010; it will not be acted upon by the Council before March 2010. These OIG budget figures represent approximately one one-hundredth percent of the total operating budget approved by the County Council for fiscal year 2010. Authorized filled positions as of January 2010: Inspector General; Deputy Inspector General; Assistant Inspector General; and Office Manager (part-time). A vacant unfunded Assistant Inspector General position also existed. By comparison, authorized OIG work years when the August 2005 Four-Year Work Plan was issued totaled 4.6.

⁴ An opinion article in the January 13, 2010 edition of *The Wall Street Journal* entitled, "How to Guard Against Stimulus Fraud" by a former assistant Manhattan district attorney recommended that state and local governments should set aside no more than 2 percent of federal stimulus money received for meaningful fraud prevention, detection, and investigation efforts. For example, if a county is to receive \$100 million, \$2million should be set aside for anti-fraud efforts.

Performance Measures and Targets

Consistent with the practice over the past four years to quantify the value of OIG audits, reviews, and investigations, some of the OIG's key performance measures and targets for fiscal years 2010-2013 are listed below. Performance results for these or other measures for fiscal years 2006-2009 are summarized in the OIG's fiscal year 2009 annual report.

Fiscal Years' 2010-2013 Performance Measures and Targets

Outcomes/Results:	2010	2011	2012	2013
Percentage of audit/review recommendations accepted ⁵	75	75	75	75
County funds recovered or put to different use as the result of audit/review findings or investigations	\$1 million	\$2 million	\$2 million	\$2 million
Questioned costs or potential savings	\$1 million	\$1 million	\$1 million	\$1 million
Resolutions to fraud, waste, and abuse matters reported to management by the OIG	5	8	8	8
Workload/Outputs:				
Joint investigations with prosecutors	4	3	3	3
Audits/formal reviews reported	5	4	4	4

⁵ This includes recommendations or other actions carried out by the Council as a result of formal reports issued by the OIG.



Office of Inspector General Staff
(January 2010)

Thomas J. Dagley, Inspector General
Christopher Giusti, Deputy Inspector General
Gary G. Weishaar, Assistant Inspector General
Elsa L. Fridl, Office Manager

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REPORT OF THE FISCAL MONITORING WORKGROUP

December 2009

BACKGROUND

The Department of Health and Human Services (DHHS) has strong program based contract monitoring. As a result of several reports issued by the Office of the Inspector General (OIG) as well as a general climate relating to increased fiscal accountability and transparency, DHHS implemented changes to strengthen our fiscal contract monitoring. Increased fiscal monitoring is an integral part of the DHHS strategic plan that was approved by the Chief Administrative Officer in May, 2009.

As part of the Department's ongoing efforts to increase communication with vendors and streamline our procedures, a fiscal contract monitoring workgroup was formed in October 2009 to discuss DHHS' work to-date and make recommendations to the Department Director and County leadership on issues related to fiscal monitoring. Please note that the workgroup limited discussions, findings, and recommendations primarily to issues relating to fiscal contract monitoring for cost reimbursement contracts. It is the expectation that site visit(s) will continue to be an integral part of programmatic monitoring as well; however, as this part of the process remains unchanged, comments relating to programmatic monitoring will be minimal in this report.

FISCAL MONITORING WORKGROUP CHARTER

Using a team-based approach, the fiscal monitoring workgroup was tasked with preparing recommendations for DHHS Director and County Leadership to refine processes associated with contract payment support documentation. Issues for discussion included:

- Monitoring versus auditing;
- De minimums amounts (dollar amounts and types of transactions);
- Models for monthly review of support documentation such as a tiered system that would include periodic on-site review of supporting documentation for some set of organizations. This includes developing possible criteria for assigning vendors to various tiers;
- Resources;
- Best practices in fiscal monitoring; and,
- Training.

Members

- **Chair: Sherry D. White, Chief Operating Officer, DHHS**
- **DHHS Financial Operations**
 - Sue Cymek, Senior Contract Auditor
 - Chris Ullmann, Fiscal Team Leader (as available)
 - Leon Hasnain, Compliance Team Leader
 - Kara Ingram, Senior Contract Monitor (Staff)
- **DHHS Contract Monitors**
 - Lisa Stafford, Public Health Services
 - Nadja Cabello, Behavioral Health and Crisis Services

- **Department of Finance**
 - Laleh Shabani, Accounts Payable Manager
- **Office of the County Attorney**
 - Donna Potisk, Paralegal Specialists
- **Office of Management and Budget**
 - Beryl Feinberg, Budget Manager or Pooja Bharadwaja, Management and Nydget Specialist
- **Vendors**
 - Sharon Friedman, Executive Director or Ann Mazur, Chief Financial Officer, Mental Health Association
 - Chuck Beard, Vice President, Silver Spring Team for Children and Families
 - Norma Wright, CFO, The Center for Adoption Support and Education, Inc.
 - Mohammed Doka, Director of Finance, National Center for Children and Families
- **Council Representative**
 - Linda McMillan, Senior Legislative Analyst

Subgroup Assignments

Monitoring versus Auditing	*Sherry White and Sue Cymek
Resources DHHS monitoring	*Sherry White, Sue Cymek, Kara Ingram-Dukes, Lisa Stafford, and Nadja Cabello
Vendors	Mohammed Doka and Chuck Beard
Training and Capacity Building	Norma Wright, Sharon Friedman and Lisa Stafford Mohammed Doka and Chuck Beard
Models for monitoring	
Pros and cons of various options	*Sherry White, Donna Potisk, Linda McMillan, *Sharon Friedman, Mohammed Doka, Sue Cymek
Criteria for full on-site monitoring	
What are other agencies doing?	
Level of Payroll Detail	*Norma Wright and Lisa Stafford
De minimums Amount	*Laleh Shabani, Chuck Beard, Sherry White and Sue Cymek
Explore holding company concept	Norma Wright and Chuck Beard
*Indicates Chairperson of Subgroup	

SUMMARY OF WORK

1. KEY DIFFERENCES BETWEEN CONTRACT MONITORING AND CONTRACT AUDITING

The differences between contract monitoring and auditing remained a point of confusion for many. The working group was tasked with providing a clearer explanation of the differences between these two processes.

Monitoring and auditing are very similar in many respects and much of the documentation needed to support contract invoices is the same documentation required in an audit. Both processes center on identifying risk and preventing waste fraud and abuse. In addition, there are two kinds of increased risk: (1) new vendors with no history with the agency; and, (2) long-time vendors/contracts where the contract monitor becomes complacent.

Following is a summary of the two processes.

Steps	Monitoring	Auditing
Identify Risky Contracts	Yes	Yes
Understand Contract Specifications	Yes	Yes
Assess Risk	Yes	Yes
Systems to Test Risk	Ongoing monitoring	Limited audit tests
Follow-up on Anomalies	Investigate internally or with vendor	Expanded Audits

Reference: Financial and Audit Solutions, June 2006, Volume VIII, Issue 3, Office of the NY State Comptroller, Division of State Services

A key difference between the two processes relates to systems to test risk and issue resolution. As monitoring is on-going, risks can be identified and corrected in real-time rather than retrospectively as is the case with auditing. This minimizes cumulative disallowances and facilitates early corrective action if issues arise. Monitoring also allows for corrections within the current budget year. With auditing, disallowances often affect future budget years, and if the disallowances are significant, can negatively impact budgets, sometimes several years after the expenditures occurred.

The other key difference between the two processes relates to communication and follow-up on issues that are identified. With monitoring, problems can be resolved in a collaborative and interactive fashion with the contract monitor and vendor engaging in dynamic and interactive dialog to implement corrective action. Examples of fiscal issues that may need corrective action include:

- Under-or-over spending;
- Improper invoicing;
- Improper payments;
- Repeated staff turnover and prolonged vacancies that can impact the scope of service or vendor infrastructure;
- Missing or incomplete records, and,
- Internal control weaknesses, including lack of policies and procedures for sensitive transactions like gift cards.

In many cases, when identified as part of monitoring, corrective actions can be put into place in a timely fashion. However, when issues are identified as part of an audit often an expanded audit is necessary to verify the scope of the problem.

With regard to the documentation needed for both the monitoring and auditing processes, the working group validated that the information distributed to vendors in July 2009 (Attachment 1) is standard and customary documentation and must be maintained by all vendors to support their contract expenditures.

2. WHAT ARE OTHER AGENCIES DOING?

The workgroup reviewed a number of studies, articles, and best practice recommendations for contract monitoring from organizations, including state and local governments. In addition, representatives from the counties of Fairfax and Loudon in Virginia, as well as Montgomery County Department of Housing and Community Affairs were also contacted.

There is an extensive body of work with regards to best practices in fiscal contract monitoring and, in particular, the challenges associated with nonprofit organizations. There are a number of common themes that have been identified across agencies. These include:

- Strong programmatic focus, often at the expense of fiscal monitoring;
- Enabling behavior on the part of funding agencies, i.e., holding nonprofit organizations to less stringent standards with regards to infrastructure and capacity;
- Inconsistent processes and lack of documentation with regard to policies and procedures, both on the part of funding agencies and vendors;
- Lack of fiscal training, both on the part of agencies and vendors;
- Diversity of contractor infrastructure and capacity; and,
- Inadequate resources for agencies and vendors.

These issues are similar to the challenges faced by Montgomery County, and specifically by DHHS, and are consistent with many of the issues identified in DHHS' 2009 strategic plan.

The work of several of the groups is particularly noteworthy, specifically:

The City of San Francisco (October 2009)

During the 2000-2001 fiscal year, the City of San Francisco contracted for over \$314,000,000 of nonprofit services, including but not limited to services for the elderly, poor, youth, and displaced and unemployed families, as well as those at risk from drugs, violence, mental illness, criminal justice involvement, or HIV/AIDS.

Over the course of several years, the task force issued reports on various issues, including fiscal monitoring. The task force's work culminated in a comprehensive report "Citywide Fiscal and Compliance Nonprofit Monitoring Guidelines," (http://www.sfgov.org/site/uploadedfiles/controller/csa/np/Citywide_Monitoring_Guidelines_2009.pdf) issued October 2009. During the period between 2002-2009, the City, among other things, clarified roles and responsibilities, developed vendor self assessment forms, standardized procedures, developed electronic system, including an on-line calendar for scheduling monitoring visits, and standardized forms for monitoring visits.

The October 2009 report also outlined many of the challenges associated with fiscal monitoring in the nonprofit community and recognized that the nonprofit providers, “... *strive to provide the highest level of service to their clients*” but also noted that “*unfortunately, in the list of priorities, program delivery often comes at the expense of fiscal systems.*” Specifically, the task force made five (5) specific recommendations with regard to finance:

- Move beyond mission-versus-money thinking—attention should be paid to achieving the nonprofit’s mission and proper maintenance of fiscal systems;
- Cultivate financial leadership in staff and the board;
- View programs and support as interdependent;
- Recognize the relationship between strong infrastructure and strong programs; and,
- Set a tone of financial accountability and transparency.

The October 2009 report also recommended that all City Departments adopt the following best practices for fiscal and compliance nonprofit monitoring:

- Apply monitoring standards consistently and use standard forms;
- Include nonprofit monitoring procedures and standards in Departmental policy and procedure manuals, as well as in performance evaluations and new staff orientation;
- Include a copy of the standard monitoring form in nonprofit contract boilerplate, or otherwise include the fiscal and monitoring criteria in the department’s contract language;
- Utilize monitoring information in renewal or contract/grant award processes and discussions;
- Maintain and follow written departmental policies and procedures to address those nonprofits who have very serious monitoring findings or who do not successfully complete corrective actions; and,
- Identify training needs for department staff and nonprofit contractors to improve fiscal and compliance performance.

Florida Department of Juvenile Justice, Office of Detention Services (June 2009)

The Florida Department of Juvenile Justice issued detailed “Contract Management and Contact Monitoring Implementation Guidelines” in June 2009 (http://www.djj.state.fl.us/policiesprocedures/reviewpolicies/Contract_Monitoring/Detention_Services_Contract_Management_Program_Monitoring_Manual_June-2009-Draft.doc). According to the guidelines, “...contract monitoring provides the Department with the information necessary to assess the fiscal and programmatic accountability of its Providers.” Monitoring is accomplished through a combination of on and off site monitoring. Site visits may be announced or unannounced.

With regards to cost reimbursement contracts, the guidelines note the following are required for payment:

- Invoice with original vendor signature;
- Valid purchase order;
- Programmatic reports and/or other deliverables; and,
- Supporting documentation for the expenditures/services delivered.

The report notes that each contract manager (equivalent to the DHHS contract monitor), must create/maintain a mechanism for tracking and reconciling invoices against contract budgets. All

contracts are required to receive an administrative (including fiscal) site visit at least once/year. In addition to the documents submitted each month, the guidelines outlines documents that should be reviewed in advance of a site visit. Financial document review may include:

- Monthly expenditure reports;
- Contract budgets;
- Income statement;
- Balance sheet;
- List of funding sources (source and amount);
- Monthly revenue expense report (previous 12 months);
- Financial summaries;
- Financial and Compliance audit (if not previously submitted); and,
- Management letter (if not previously submitted).

Policies and procedures relating to such issues as cash management, employment practices, procurement, record retention, and travel may also be reviewed, depending on applicability.

State of Texas

After extensive work, the state of Texas developed a best practices contract management matrix. The matrix provides criteria for organizational best practices for various processes in contract management and delineates those contracting practices associated with poor, average, and best practices.

(<http://www.window.state.tx.us/procurement/pub/contractguide/Appendix15BestPracticeMatrix.pdf>).

Other

Fairfax County | Fairfax County works with over 200 nonprofit organizations that conduct business with Fairfax County human service departments. There are approximately 400 contracts at any given time with an estimated value of \$57 million. Monitoring activities include a review of demographic and program reports, analysis of annual audited financial statements, and on-site visits. Contract Management staff, Financial Management staff and Human Services program staff collaborate on different aspects of the monitoring processes. Monitoring is performed to assess contract compliance, financial sustainability, and performance outcomes.

Audited financial statements and federal income tax forms of funded nonprofit organizations are submitted regardless of the contract dollar amount. Organizations receiving \$100,000 or more per year undergo a yearly in-depth financial review while those with a lesser dollar amount are reviewed every three years or as circumstances change during the course of the contract.

All contracts are monitored on a regular basis for contract and performance compliance with on-site visits scheduled for new providers, those with multiple contracts, those needing improvement with some aspect of their contract, and as an outreach effort to learn more about the organization and its services.

The county may require copies of the organization's by-laws, Board of Directors contact information and meeting minutes, position descriptions, staff resumes, 501(C)3 Certificate, mission statement or strategic plan and other documents depending upon the nature of the contract.

Fairfax County has provided vendor training on budget preparation, financial management and board development especially focused on new contractors with the County. Additionally, the Fairfax County Internal Audit Office has developed training for the monitors to look for “red flags” in the audited financial statements which the monitors review. The red flags focus on trends in their organization such as expense and income or other key ratios. If there are significant financial issues with the contractors, the Internal Audit Office will conduct a more in-depth review of the contractor’s financial operations.

Loudon County | Loudon County Family Services has implemented support documentation requirements for their 10 Homeless Shelter contractors which total over a \$1 million. The department requires that any expense on the invoice be supported by payroll documents, sub-vendor invoices and receipts and sub-vendors contracts. The department began this process when it noticed irregularities in their Homeless Shelter invoices from vendors billing inappropriate expenses for their contracts.

Montgomery County Department of Housing and Community Affairs (DHCA) | The Community Development Block Grant (CDBG) is federally funded and provides public service community grants. Recipients apply through an application process which is reviewed by an independent committee consisting of volunteers, appointed by the County Executive. The committee makes the selection and notifies DHCA of the list of grant recipients.

At the time of the contract, DHCA requests Articles of Incorporation, bylaws, insurance and verification of the IRS 501(C)3 status, checks with the State of Maryland records to determine if the corporation charter is in good standing and verifies whether the contractor has not been debarred for federally funded contracts.

The Grants Administration Section requires support documentation to accompany the invoice such as payroll detail, timesheets, sub-vendor invoices, etc. DHCA verifies actual expenditures by the contractor have been made at the time of the on-site monitoring by reviewing cancelled checks or bank statements, unless circumstances indicate an earlier or more frequent confirmation process. Sometimes if certain vendors have voluminous payroll and expenditure documentation and has multiple contracts with the County, DHCA allows the contractor to submit the overall packet (including relevant as well as inapplicable expenditures) with those components funded through the County broken down and apportioned among the various contracts. This enables the contractor to avoid assembling multiple contract-specific back-up documentation packets. The section also routinely verifies invoiced expenditures occur during the active contract term (after Notice to Proceeds has been executed by Procurement and prior to contract expiration date).

The on-site monitoring usually occurs once a year unless some issues arise where more frequent visits are required. At that time, the section reviews the contractor’s files to see if their files agree with the section files for budgeting, invoicing, payments received and compliance with all other contract requirements, including reporting as needed. The section prepares a close out form for final file review for all contracts. Also the section performs grant specific testing such as eligibility criteria for income, etc., at the appropriate stage in the process.

3. MONITORING MODELS

Contract monitoring is that set of activities that takes place over the course of a year to verify that contract services are being performed and appropriately invoiced. There are two types of monitoring: fiscal and programmatic. Generally, both types of monitoring are performed concurrently. Programmatic monitoring has long been, and will continue to be, a strong part of DHHS contract monitoring. As the focus of this work was primarily related to fiscal monitoring, the workgroup focused on those areas during their discussions.

Fiscal monitoring includes but is not limited to:

- Reviewing contractor invoices;
- Comparing budgets and/or budget limits to actual expenditures;
- Obtaining reasonable documentation that services billed were actually delivered according to the contract; and,
- Comparing invoices with supporting documentation to determine that costs were allowable, necessary and/or allocable.

Two major methods of fiscal monitoring are:

- on site review of supporting documentation for invoices and other relevant information; or
- submission of supporting documentation with invoices combined with limited on-site review of other relevant information.

Both of these approaches are valid and each has different strengths and weaknesses as well as different resource requirements. The workgroup initially focused on three models for monitoring:

- Full on-site monitoring—the primary review of fiscal documentation would occur at the vendor's location(s);
- Hybrid monitoring—some documentation would be submitted with the invoice, with the remainder reviewed at the vendor's location; and,
- All supporting documentation submitted with invoices.

The difference between the hybrid model proposed by DHHS and the routine submission of supporting documentation relates mainly to the requirement to submit documentation for small dollar transactions, i.e., de minimus amounts.

The discussions on establishing a de minimus amount (i.e., a dollar amount or a % of invoice/contract amount below which receipts must be kept by the vendors but not submitted each month) were some of the most challenging. There was a concern on the part of the County that even a low dollar (or percentage amount) value for a de minimus amount could add up to substantial amounts of money over the course of the contract year. Additionally, as DHHS has to account (to non-County funding sources) for all expenditures this approach might result in future disallowances that the County would have to repay. DHHS Financial Operations staff and contract monitors also expressed the view that separating and tracking de minimus receipts would require greater effort than receiving copies each month and this view was, to some extent, supported by vendor representatives on workgroup.

It was also noted that invoices would have to incorporate a certification by vendors to account for the difference in the amount billed on an invoice versus the attached receipt. There was concern that this type of certification could serve as a red flag for future audits. The workgroup also discussed the types of transactions, such as gift cards, that the County would be uncomfortable having de minimums amounts. Lastly, there was concern that establishing a de minimums amount could lead to transaction splitting to avoid submitting receipts. Representatives from the vendor community recognized these concerns, although there were continuing concerns regarding resources. DHHS will continue discussions on de minimums amounts; however, it is unlikely that this issue will be resolved in the near future.

After much discussion, the workgroup came to consensus that DHHS should focus on two fiscal monitoring models. Attachment (2) compares the two models, including the differing resources and the advantages and disadvantages of each of the models.

Model 1: Full on-site fiscal monitoring--the primary review of fiscal documentation occurs at the vendor's location(s). There was a strong consensus among the workgroup that this type of monitoring would require vendors to meet a stringent set of criteria. Several of the vendors expressed that even though their organization might meet the criteria for on-site monitoring, it might work better for them to submit documentation with the invoices. Thus, the workgroup focused on creating an application process so that vendors could either choose to apply or not. Applications would be reviewed against the criteria recommended by the working group and approved by the County's leadership. To assure that vendors have a full understanding of what full on-site monitoring entails, procedures for the on-site monitoring will be developed and disseminated with the application. To maximize efficiencies gained by the knowledge of an organization's infrastructure, special procedures, including coordinated fiscal monitoring, will be developed for those organizations that have five (5) or more contracts with DHHS.

It was also noted that on-site monitoring must be considered an earned privilege which could be revoked by the County if questionable practices were identified during the monitoring process or other issues relating to fiscal accountability were identified during the course of the contract year.

Model 2: Hybrid fiscal monitoring: Under this model, supporting fiscal documentation will accompany contract invoices. The workgroup was unable to come to consensus with regard to a de minimums amount for transactions; thus most, but not all, documentation must be submitted with invoices. The remainder of the information will be reviewed during the annual on-site fiscal monitoring visit.

Exceptions to the requirement to submit documentation with invoices include the following:

- Proof of payment for expenditures that cross billing cycles (for example, credit cards transactions, utility bills);
- Although there is no general de minimums amount, vendors may request approval from the DHHS, Chief, Financial Operations and Chief Operating Officer to receive on-site transaction testing for **contract specific**, high-volume; low-dollar transactions (such as building replenishment funds); and,
- Documentation in support of fringe and overhead rates, once these rates have been approved by DHHS.

To assure that vendors have a full understanding of what this type of monitoring entails, monitoring procedures will be developed and disseminated. To maximize efficiencies gained by the knowledge of an organization's infrastructure, special procedures will be developed for those organizations that have five (5) or more contracts with DHHS.

There was consensus that, given the current resources for both DHHS and vendors, this approach reduced risk by providing substantially more documentation for expenditures than the department had received prior to July 1, but also recognized the burden associated with certain types of expenditures. This hybrid monitoring methodology is very close to DHHS' current methodology and reflects the on-going adaptation of process improvements since initial implementation in July 2009.

The workgroup also briefly discussed the concept of a holding company for those nonprofits that provide services to the County but do not have well developed financial infrastructures. Due to the short time-frame for recommendations, the working group did not have an opportunity to fully explore this model. However, it was noted that this approach might prove very valuable, especially for new or very small organizations with limited capacity and infrastructure. This model should be explored more fully in the coming months and tied to the concept of the nonprofit village.

4. TRAINING:

Lack of training and consistent, well-developed policies and procedures have repeatedly been identified as an obstacle to best practices in fiscal contract monitoring—both on the part of agencies as well as vendors. Staff turnover, minimal organizational depth in key areas, and lack of clear policies and procedures with regard to fiscal matters necessitate developing both initial (orientation) training as well as sustained on-going training.

Based on the list of the most common budget and fiscal related contract issues identified by DHHS, the working group delineated several types of training. The most immediate need relates to providing additional training to vendors on the DHHS fiscal monitoring procedures, specifically, invoice preparation, documentation requirements and monitoring plans. This training needs to be done as soon as the County's leadership reviews the recommendations of the working group. Additionally, to supplement training, written materials should be developed and made available.

Beyond this, there are opportunities for the County and our vendors to work together to provide capacity building training. Vendors have requested training on a broad range of topics, including:

General business and organization training:

- Understanding the County's procurement process
- The Nonprofit Organization: An Introduction for the Public Sector
- Montgomery County Department of Health and Human Services: An Introduction for the Private Sector
- Department of Health and Human Services Contract Language – Relevancy to Contract Accountability
- Cost Reimbursement Contracts/Fixed Price Contracts – Defining Standards

Fiscal specific training:

- Developing indirect and fringe benefit rates
- Designing and Maintaining Fiscal Controls in a Nonprofit Business
- Best Practices in Nonprofit Fiscal Management
- Montgomery County Department of Health and Human Services: An Introduction for the Private Sector
- Nonprofit Personnel (Employees and Consultants) and Payroll Best Practices
- The “Monitor Ready” and “Audit Ready” Nonprofit Business: Defining the Parameters
- Preparing the Yearly Budget - A “How-To”
- Invoice Preparation
- Department of Health and Human Services Contract Language – Relevancy to Contract Accountability
- The Community Grants Process – Fiscal and Programmatic Reporting Expectations
- Conversations with the Nonprofit Sector/Department of Health and Human Services Fiscal Leadership

It is unclear to the workgroup as to where the responsibility for many of the trainings resides — perhaps it is a joint responsibility between the various County departments and the vendors themselves. Many of these issues go to the heart of finding the right balance between programmatic missions and fiscal responsibility. And, the extent to which goals relating to training and capacity building can be accomplished expeditiously relates directly to the allocation of resources (discussed below).

5. RESOURCES:

Given the current economic climate, the issue of increased resources for fiscal monitoring is extremely difficult. DHHS has seen significant budget cuts over the last several years and FY11 will continue to be challenging. Vendors have also seen reductions in their funding from both County and non-County sources. These budget reductions are occurring at a time when both the need for services and the requirements for fiscal accountability are increasing.

As noted in Attachment 2, each of the monitoring models requires difference resources on the part of DHHS and vendors. Full on-site monitoring still requires vendors to prepare for a site visit(s) and staff must be available during the site visit. Additionally, for those vendors with multiple contracts, procedures for coordinated fiscal auditing need to be developed. For DHHS, on-site monitoring will require that fiscal staff with greater experience be available for site visits as DHHS senior financial management will not be available to consult.

Vendors must have appropriately prorated receipts available as the basis for preparing the invoice. The majority of the expenses associated with submitting monthly documentation are linked to copying and organizing information so that it readily relates to the contract invoice. This is especially relevant in those cases where personnel and direct operating expenses are prorated between multiple DHHS contracts. For DHHS, receiving monthly invoices maximizes the opportunity for real-time monitoring; however, increased time is required to review monthly invoices and until the County has technology in place to receive and store supporting documentation electronically, storage space is an issue and monitors will be required to archive materials more frequently.

Department of Health and Human Services

DHHS is committed to greater fiscal monitoring. To do so effectively, the Department's program-based monitoring must include a greater role for DHHS fiscal and compliance staff. Additionally, there are significant differences in vendor capacity and, until additional expertise in the fiscal area is developed, the level-of-effort required on fiscal related matters will continue to be high. The Department has allocated two full-time fiscal positions to contract monitoring. One position was filled as of July 1, 2009. The second position is currently vacant but the Department is expecting to fill this position by January 1, 2010.

These two positions, along with the expertise of the Chief, Financial Operations (currently vacant) and the Chief Operating Officer comprise the majority of resources available to the department for fiscal contract monitoring. While there are two accountant/auditor positions in the compliance section of Financial Operations, these positions have responsibility for multiple compliance functions within the Department, including the coordination of all external audits. Likewise, the accountant/auditors in the fiscal team are fully committed to other critical operations in the Department, including contract and client benefit payments. The Department also expects that increasing demands will be made on Financial Operations over the next 12-18 months as the County's ERP project is implemented. Many staff in Financial Operations has already committed substantial effort to this project and continued efforts will be necessary to assure a successful implementation.

With the resources currently available, DHHS is able to provide basic fiscal support and training to DHHS contract monitors and act as consultants during the monthly invoice review. To provide more comprehensive training, on-site monitoring, and engage in the myriad of activities that will lead to Department and County-wide best practices additional resources will be required. DHHS currently estimates that approximately four (4) new positions will be required to support these enhanced activities, including on-site monitoring.

Vendors:

Prior to July 2009, the expectation was that vendors would retain all support documentation for their invoices and provide it upon request. Some vendors also submitted the documentation with their invoices and saw little or no change as a result of the July 2009, requirement to submit documentation. Other vendors, who had not previously submitted fiscal documentation with their invoices, incurred costs associated with the requirement to submit supporting documentation.

Currently, for vendors, the majority of the expenses associated with the requirement to submit documentation with their contract invoices, are associated with copying and organizing information so that it readily relates to the contract invoice. This burden is magnified for those organizations with multiple contracts with the County as the effort associated with copying and collating information has resulted in significant duplication due to prorated expenses across multiple DHHS contracts.

However, DHHS has also heard from vendors (including representatives on the workgroup) that after the first month or two of the new invoicing requirements, vendors were able to bring efficiencies to their internal system so that the time required at the end of month was reduced. This is consistent with information received from DHHS contract monitors which indicated that many issues relating to invoicing have been resolved over the past few months.

DHHS is unable to determine the dollar impact of the change in requirement for each of our vendors because it relates to individual vendor processes, including whether or not submitting supporting documentation is a new process for the vendor, number of contracts, the balance between personnel and direct costs, whether the contract has many low dollar expenditures, the rate of pay for individuals used to copy/collate materials, and a number of other factors.

Often contract budgets have excess money in one or more categories, especially personnel as contract budgets do not contain "lapse." Consistent with the contract language, contract monitors can approve line item reallocations (including reallocation between personnel and operating costs) in excess of 10% if sufficient justification is provided. Prior to approving the reallocation, contract monitors must carefully review the vendor's budget and look for reductions in areas that would have minimal service impact. This reallocation will not eliminate the costs associated with the copy and collating; however, this approach utilizes funds in the contract that may otherwise not be used.

Recognizing the urgency of addressing the immediate need to reduce the burden's associated with increasing fiscal accountability in this time of significant resource constraints, DHHS has prepared an interim monitoring plan, Attachment, for the remainder of FY10. The plan recognizes that increasing fiscal accountability is necessary and that it is a shared responsibility. At the same time, the interim plan also recognizes that there are very real constraints that must be factored into what can be accomplished. DHHS anticipates developing the FY11 monitoring plan during the late spring of 2010 when additional information with regards to the FY11 budget and resources is available.

Additionally, the workgroup recognized a very strong need for capacity building and sustainability, particular for small or emerging organizations. Utilizing a proactive approach of training and education will do much to alleviate issues relating to the lack of fiscal infrastructure and accountability. Specifically, the working group discussed identifying FY11 funds to create a fund to support capacity building for fiscal accountability in nonprofit organizations.

Access to the fund would be via an application to DHHS describing the proposed use of funds and the value of the project. Funding would be limited to \$5,000 per vendor through the fiscal year. Submission of projects that could benefit multiple vendors is encouraged.

The fund would be used to support activities such:

- assistance with developing well organized, transparent general ledgers;
- obtaining an external financial audit or management review;
- developing organizational fringe and overhead rates;
- implementing strategies to minimize effort required to copy and collate supporting documentation; and,
- fiscal and capacity building training such as that identified under the training section of the working group's report.

Projects will be evaluated based on criteria specified in the application process and, depending on availability of future funding, continuing these capacity building activities beyond FY11 would be an important part of building sustainable capacity.

6. RECOMMENDATIONS:

The fiscal contract monitoring workgroup **recommends approval** of the following for all cost reimbursement contracts:

General | Standardize contract monitoring practices for all Departments with cost reimbursement contracts.

Fiscal Contract Monitoring:

- Implement fiscal monitoring models for cost reimbursement contracts detailed in Attachment 2
- Approve the DHHS FY10 Interim monitoring plan which includes hybrid model for monitoring for the remainder of FY10 (Attachment (3)).
- Adapt eligibility criteria listed below for full on-site fiscal monitoring:
 - Yearly “clean” audit by external CPA firm;
 - Well organized general ledger with cost accounting;
 - Established history with the County of at least 3 years;
 - Evidence of financial responsibility and stability as evidenced by information such as:
 - Financial statements from the previous 3 years.
 - Line of credit from financial institution.
 - Evidence of no less than six weeks working capital.
 - Ability to submit one month’s detailed documentation to assure reliability of fiscal reporting upon award of new contract; and,
 - For initial determination the quality of the documentation submitted with invoices beginning July 2009 will be assessed.
- Develop application process for full onsite monitoring.
- Develop descriptive monitoring plans for both on-site and hybrid fiscal monitoring.
- Conduct pilot for full on site monitoring.

Fiscal Year 2010 Resources | Implement the DHHS Interim Monitoring Plan, Attachment 3, to reduce the current burden of providing support documentation for the remainder of FY10 and mitigate the costs associated with copy and collating support documentation.

Fiscal Year 2011 Resources

General Capacity Building and Sustainability:

- Identify FY11 funds to support capacity building for fiscal accountability in nonprofit organizations. Access to the fund would be via an application to DHHS describing the proposed use of funds and the value of the project. Funding would be limited to a maximum of ~\$5,000/vendor for the fiscal year and projects prioritized based on available funding.

The fund would be used to support activities such as:

- assistance with developing well organized, transparent general ledgers;
- obtaining an external financial audit or management letter;
- developing organizational fringe and overhead rates;
- implementing strategies to minimize effort required to copy and collate supporting documentation; and,

- fiscal and capacity building training such as that identified under the training section of the working group's report.
- Create four (4) additional contract monitoring positions in DHHS. Creation of these additional positions would benefit both DHHS and the vendors as additional assistance on fiscal related matters would be available.
- Provide funds to support training and other resource development.

TABLE OF SUPPORT DOCUMENTATION

The category of expenditures listed in the following table can represent either direct or indirect costs depending on whether the expenditure is contract specific or organization costs that can not be reasonably attributed to a specific contract. Also, be aware some funding sources may have specific requirements.

Category	Documentation	Comments
Consultants	Copy of consultant agreement specifying work performed, hours, and rate (provided at contract execution and updated if changes occur)	Consultants should be listed as operational costs not personnel Consultants do not receive fringe benefits
Temporary workers	A copy of the invoice showing rate and hours worked. Proof of payment	
Staff Development	Purpose; registration form and proof of payment	
Local Travel	Name of staff and mileage log which should include place of origination and destination, purpose of travel and travel dates Google (or other similar) printout showing mileage can be used in place of the mileage log but additional information regarding the purpose and travel dates should also be included	It is recommended that organizations use the IRS mileage rate and pay employees accordingly
Non-Local Travel	Copy of airline ticket and proof of payment Copy of detailed hotel portfolio and proof of payment. Copy of restaurant bill and proof of payment. Additionally, request the name of others included on the restaurant bill, if appropriate and state the program purpose of paying for a meal for a number of guests	The County does not reimburse for meals included in the conference fee
Meetings and Conferences	If meeting or conference, copy of registration and cancelled check or other documentation of payments (such as a corporate credit card)	The County does not reimburse for meals included in the conference fee
Rent	Copy of rental agreement. Monthly (or other time period) invoice. Invoice must reflect prorated amounts, if appropriate. Proof of payment	Copy provided with first invoice of fiscal year. Any changes in space must be approved and a new copy of the lease agreement forwarded to DHHS contract monitor

Category	Documentation	Comments
Utilities	Copy of utility bills with appropriate contract notations for prorated amounts. Proof of payment	
Maintenance	Copy of receipts for equipment repair and other types of maintenance Proof of payment	
Equipment	Copy of invoice/receipt Proof of payment	
Supplies	Copy of invoice (or store receipt) with non-contract related supplies annotated and subtracted Proof of payment	
Food (client/customers)	Copy of invoice or receipt with purpose of the purchase noted.	
Insurance	Insurance—invoice with cost appropriately prorated per contract, if applicable Proof of payment	
Postage	Receipt with purpose noted	
Printing	Copy of invoice. Program Purpose. Proof of payment A copy of the “product”	
Stipends/scholarships	Name of person receiving stipend/scholarship, amount, award letter or other proof of payment;	
Incentives	Type and purpose of incentive Invoice. Proof of purchase.	
Gift Cards	Copy of receipt or other proof of purchase annotated with the purpose of the gift cards.	Gift cards are negotiable items and thus considered high risk for potential abuse. Procedures for obtaining, distributing, securing and reconciling gift cards must be on file. DHHS staff will review procedures during site visits.

Category	Documentation	Comments
		If possible, contractors should use avoid using gift cards and use alternate methods for purchases.
Communications (cell phone; phones; pagers)	<p>Copies of bills with appropriate contract notations for prorated amounts, if appropriate.</p> <p>Program purpose for cell phone and call detail for each cell phone.</p>	
Cleaning	<p>Invoice</p> <p>Proof of payment</p>	
Activities	<p>Purpose of activity</p> <p>Cost</p> <p>Invoice, if available</p> <p>Proof of Payment</p>	
Other	<p>Copy of invoice with purpose noted</p> <p>Proof of payment</p> <p>Copy of agreements, if appropriate</p>	

FISCAL MONITORING MODELS FOR COST REIMBURSEMENT CONTRACTS

FULL ON-SITE FISCAL MONITORING	HYBRID-Some materials reviewed on site; others submitted with monthly invoice
<p>Purpose of site visit: Fiscal monitoring of invoice supporting documentation. Also, see below "Other items for on-site testing"</p> <p>Site visit conducted by: Contract monitor and fiscal staff</p> <p>Frequency of on-site visits: Contracts >\$100,000 1visit per year; if financial irregularities are found, additional fiscal monitoring visits will be scheduled as necessary</p>	<p>Purpose of site visit: Fiscal monitoring of materials not submitted with monthly invoices—See below "Other items for on-site testing"</p> <p>Site visit conducted by: Contract monitor and fiscal staff (as needed). Fiscal staff also available to consult on monthly documentation.</p> <p>Frequency of on-site visits: Contracts ≤ \$100,000 1 visit per year Contracts >\$100,000 1visit per year For all contracts, if financial irregularities are found, additional fiscal monitoring visits will be scheduled as necessary</p>
<p>Fiscal support documents submitted monthly: N/A</p> <p>Payroll and/or timesheets: Materials will be reviewed on-site.</p> <p>Overhead/indirect: rates determined as part of contract budget process; once approved vendor would be required to maintain documentation and provide documentation upon request.</p> <p>Fringe: rates determined as part of contract budget process; once approved vendor would be required to maintain documentation and provide supporting documentation upon request.</p> <p>Direct Operating Costs:</p>	<p>Fiscal support documents submitted monthly:</p> <p>Payroll, timesheets or other DHHS report: monthly</p> <p>Overhead/indirect: rates determined as part of contract budget process (new contract as executed and upon renewal); once approved vendor would be required to maintain documentation and provide documentation upon request; however, materials would not need to be submitted on a monthly basis.</p> <p>Fringe: rates determined as part of contract budget process (new contract as executed and upon renewal); once approved vendor would required to maintain documentation but not submitted monthly.</p>

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FULL ON-SITE FISCAL MONITORING

HYBRID-Some materials reviewed on site; others submitted with monthly invoice

Supporting documentation would be reviewed on-site. Refer to attached Table of Documentation (attachment) for types of documentation that the vendor is required to keep to support direct costs.

Direct Operating Costs:
Refer to attached Table of documentation (attached) for types of documentation that the vendor is required to keep to support direct costs. With the exceptions noted below, documentation must be submitted monthly

Other items for on-site testing:

- Internal control testing, including random transaction testing on general ledger
- State and Federal tax returns
- Financial statements or audits (if available)
- Selected policies and procedures, such as gift cards control
- Proof of payment for expenditures that cross billing cycles (for example, credit cards transactions, utility bills)
- List of board members/meeting schedule/agendas
- Contract specific, high volume; low dollar transactions—if approved by DHHS, Chief, Financial Operations and Chief Operating Officer.

Other items for on-site testing:

- Internal control testing, including random transaction testing on general ledger
- State and Federal tax returns
- Financial statements or audits (if available)
- Selected policies and procedures, such as gift cards control
- Proof of payment for expenditures that cross billing cycles (for example, credit cards transactions, utility bills)
- List of board members/meeting schedule/agendas
- Contract specific, high volume; low dollar transactions—if approved by DHHS, Chief, Financial Operations and Chief Operating Officer.

Resources:

Vendor

- Administrative and fiscal staff would need to be available to provide documentation and address questions as they arise. As the fiscal site monitoring would cover larger volume of information at one time, this could require several days-week of commitment, depending on the contract value and complexity.

DHHS

- DHHS contract monitor and fiscal staff.

Resources:

Vendor:

- Primary focus of the site visit would be on programmatic issues; however, administrative or fiscal staff will need to be available to provide supporting documentation for above items

DHHS:

- Contract monitor and, in some cases (depending on dollar value and/or complexity of the contract), fiscal staff.

Advantages:

Vendor

- Time to organize/xerox documents on a monthly basis reduced

Advantages:

Vendor

- Workload spread more evenly.
- Real time problem resolution



FULL ON-SITE FISCAL MONITORING

DHHS

- Reduction in the amount of paper DHHS would need to store.
- Reduced time to review monthly invoices.

Disadvantages

Vendor

- If a vendor has multiple contracts, multiple visits monitoring visits may be needed. This could require a significant time commitment on the part of the vendor. Additionally, as DHHS staff may not have knowledge of the vendor's invoicing process, additional time may be required to learn the process.
- Criteria for on-site monitoring will be stringent; cost to meet these criteria may exceed the cost of copying documents on a monthly basis.
- Loss of real-time problem resolution which might result in cumulative disallowances for multiple months.

DHHS

- Less real time accountability
- Less ready access to documentation if questions arise
- Fiscal staff conducting on-site visits will need to be greater experience and training as senior level. DHHS fiscal staff will not be available for consultation on-site.

HYBRID-Some materials reviewed on site; others submitted with monthly invoice

- Cumulative disallowances reduced.
- Problem resolution in an interactive, proactive manner.
- Cost and time associated with invoicing reduced.

DHHS

- Real time problem resolution
- Greater level of comfort in approving monthly invoices
- Senior financial staff available for consultation and problem resolution.

Disadvantages

Vendor

- Some additional cost and time is necessary for organizing/Xeroxing supporting documentation.

DHHS

- Increased time to review monthly invoices
- Greater requirement for storage

Fiscal Year 2010 DHHS INTERIM MONITORING PLAN

December 2009 to June 2010

Background:

In July 2009, DHHS implemented changes to the invoicing process that required all vendors to submit fiscal supporting documentation with their invoices. Substantial progress has been made over the last five months in strengthening the DHHS fiscal monitoring processes. However, this progress has occurred during a time of prolonged economic downturn with decreasing budgets, with additional significant negative impact having occurred since the DHHS strategic plan was implemented in the spring and early summer of 2009.

DHHS vendors have on-going concerns regarding the additional resources needed for copying and collating materials that are being incurred as a result of the change. The procedural change also resulted in resource costs for DHHS. When the new requirements were implemented in July, DHHS allocated two positions to support the strengthened fiscal monitoring. To implement additional changes, such as full on-site monitoring, enhanced training, and capacity building additional resources are needed.

Recognizing that many of the decisions relating to resources can not be resolved until the financial situation for FY11 becomes clearer; DHHS is committed to maintaining the core of the enhanced fiscal monitoring, i.e., the requirement for submission of supporting documentation while providing relief to vendors with regards to **new** costs related to copying and collating costs, reducing the amount of documentation that needs to be submitted, conducting additional training, and piloting on-site fiscal monitoring procedures.

For the remainder of FY10 DHHS will conduct hybrid monitoring for all vendors while piloting policies and procedures for full on-site monitoring. DHHS has engaged in continuous process improvement since the new requirements for supporting documentation went into effect in July 2009. As a result, substantial progress towards implementing the hybrid model for monitoring has already been made. Specific strategies for the remainder of the fiscal year include:

Minimize the documentation required for submission:

- Proof of payment (versus proof of purchase) for expenditures that cross billing cycles (for example, credit cards transactions, utility bills) will be reviewed on-site for all vendors; *[Current practice]*
- Eliminate the support documentation that must be submitted each month for indirect and fringe by approving rates as part of the contract budget review. *[Partially implemented; continue on-going work]*
- Although there is no general de minimums amount, vendors may request approval from the DHHS, Chief, Financial Operations and Chief Operating Officer to receive on-site transaction testing for **contract specific**, high-volume; low- dollar transactions (such as building replenishment funds); *[Partially implemented; continue on-going work]*
- To maximize efficiencies gained by knowledge of an organizations systems and procedures, monitoring plans, based on rotating contract review, will be developed for those vendors having five (5) or greater DHHS cost reimbursement contracts. This should significantly reduce the burden of copying/collating documentation for personnel and direct operating expenses that are prorated across multiple DHHS contracts; *[January 2010]*

Mitigating new expenses for copying/collating:

- Often contract budgets have excess money in one or more categories, especially personnel as contract budgets do not contain "lapse." Contract monitors can approve line item reallocation to

cover **new** expenses related to copying/collating invoice documentation. This includes reallocation from personnel to direct operating lines. As part of this process, monitors will carefully review the contract budget and minimize, to the extent possible, the impact on direct services. Documentation of these expenditures must be tracked by contract monitors and every attempt must be made to reallocate within categories that have minimal impact on direct services. *[January 2010]*

Payments:

- DHHS will continue to make partial payments to vendors to assure that payments are not unduly delayed pending resolution of invoicing issues; *[Current practice]*
- Unless there are extenuating circumstances or specific issues have been identified, the department is not holding payments for pending review of fringe and overhead rates; *[Current practice]*
- Active involvement of senior management in problem resolution. *[Current practice]*

Full On-Site Fiscal Monitoring Pilot

- Application for on-site monitoring (including details on monitoring plan for on-sites and hybrid monitoring); *[January 2010]*
- From applications received, DHHS will select approximately 10 vendor contracts to pilot the on-site fiscal monitoring procedures. From those vendors that meet the qualifications for on-site monitoring, DHHS will select a cross section of vendors representing different service areas, various types of services, and vendor diversity (size, different accounting systems, centralized versus decentralized fiscal processing, multiple contracts, etc.); *[February 2009]*
- Full implementation timeline is dependent on FY11 resources and budget.

Training

- DHHS will conduct additional monitor and vendor training on the invoicing and monitoring process. *[January-February 2010]*

Written resources

- Revise DHHS Contract Monitoring Guidelines and Standards to include the new requirements for fiscal monitoring and post on the Department's internet site. *[February-March 2010]*

Capacity Building

- Develop application and process for Fiscal Accountability Capacity Building Fund. *[May-June 2010 or upon approval by County Leadership]*