



OFFICE OF INSPECTOR GENERAL

Thomas J. Dagley
Inspector General

MEMORANDUM

February 18, 2009

TO: Phil Andrews, Council President

FROM: Thomas J. Dagley
Inspector General

SUBJECT: Review of County Contracts with the Institute for Family Development

The Office of Inspector General (OIG) conducted a review of County contracts with and payments to the Institute for Family Development (Centro Familia) that were managed by the Department of Health and Human Services (DHHS). We conducted the review in response to allegations regarding the propriety of payments to this vendor and as part of ongoing test work undertaken following our 2008 review of improper payment allegations involving another DHHS vendor. The 2008 review was reported to the Council in a July 3, 2008 memorandum.

Our review found that DHHS failed to comply with contract monitoring policies and requirements, resulting in the approval of approximately 70 Centro Familia invoices and payments exceeding \$900,000 for fiscal years 2007 and 2008 without verifying the validity and appropriateness of those payments. In addition, the inability of the vendor to provide sufficient documentation to support selected expenses itemized on monthly invoices prevented the OIG from determining the validity and appropriateness of payments.

The results of our review were reported to the Director of DHHS on January 21, 2009. A copy of the report is attached. In a February 13, 2009 response, copy attached, the Director concurred with our findings and identified specific corrective actions that are being implemented for DHHS contract monitoring. The Director's response does not address additional work needed to determine the significance of any violations of contract provisions or grant agreements, or whether abuse has occurred. In this regard, the OIG plans to jointly pursue these issues with management, the County Attorney, or other agencies.

The results of our test work to date regarding MCG payments involving DHHS contracts and grants indicate that this category of expenditures is high risk and may warrant action by the Council incident to implementing Resolution No. 16-826 (adopted January 27, 2009) regarding the County Council's Audit Function.

Attachments (2)

cc: Council Members
Timothy L. Firestine, CAO
Kathleen Boucher, ACAO
Director, DHHS





OFFICE OF INSPECTOR GENERAL

Thomas J. Dagley
Inspector General

MEMORANDUM

January 21, 2009

TO: Uma S. Ahluwalia, Director
Department of Health and Human Services

FROM: Thomas J. Dagley
Inspector General

SUBJECT: Review of County Contracts with the Institute for Family Development
(Centro Familia)

Attached please find a memorandum from Charles H. Becker, Assistant Inspector General, regarding his review of certain contracts and payments to Institute for Family Development (Centro Familia) during fiscal years 2007 and 2008. This review was conducted by the Office of Inspector General (OIG) in response to allegations regarding the propriety of payments to this vendor and as part of ongoing OIG test work undertaken following our review of improper payment allegations involving another Department of Health and Human Services (DHHS) vendor.

In addition to Mr. Becker discussing his findings with the DHHS program manager and her supervisor responsible for overseeing the contracts, I discussed our findings with Corrine Stevens, Chief Operating Officer, DHHS, on January 16, 2009. We found weaknesses related to DHHS contract monitoring and invoice approval processes for all contracts reviewed. In addition, we found that internal control deficiencies for this vendor's contracts are similar to those we reported in May 2008 for another DHHS vendor and that you identified in your June 30, 2008 response as needing corrective action. It is important to note that although payments to Centro Familia included in our review were prior to July 1, 2008, we were advised that procedures used to approve this vendor's invoices for the first six months of fiscal year 2009 were essentially the same as those used in fiscal years 2007 and 2008.

I agree with Mr. Becker that additional OIG work is needed to ensure sufficient appropriate evidence is used to determine the significance of any violations of provisions of contracts or grant agreements, or whether abuse either has occurred or is likely to have occurred. However, prior to the OIG taking the additional steps needed, I request that you advise me, in writing, by February 13, 2009, of your assessment of the internal control deficiencies reported. In your response, please indicate the status of



implementing the corrective action outlined in your June 30, 2008 response and how it will address the issues identified in Mr. Becker's attached memorandum.

If you believe that a meeting with the Office of the County Attorney, OIG, or others is needed prior to February 13, please be advised that Mr. Becker and I are available to participate in such a meeting.

Re: #07-12

Attachment

Cc: Tim Firestine, Chief Administrative Officer
Kathleen Boucher, ACAO
Leon Rodriguez, County Attorney



OFFICE OF INSPECTOR GENERAL
MEMORANDUM

Thomas J. Dagley
Inspector General

January 20, 2009

TO: Thomas J. Dagley
Inspector General

Charles H. Becker

FROM: Charles H. Becker
Assistant Inspector General

SUBJECT: Review of County Contracts with the Institute for Family Development
(Centro Familia)

I am providing you with the results of my review of invoices, payments, and compliance with MCG policies and procedures related to the administration of contracts between MCG and the Institute for Family Development (Centro Familia) during fiscal years 2007 and 2008. The contracts were established to enhance child care and early childhood services.

Basis for Review

This review was conducted as part of additional Office of Inspector General (OIG) test work as reported in your July 3, 2008 memorandum to Michael Knapp, President, County Council (see Attachment 1). The basis for this review includes allegations received by the OIG that contracts with this vendor have not been effectively managed and all MCG payments to this vendor were not proper.

Background

Our review encompassed four contracts and seven purchase orders involving payments that totaled \$909,460 for fiscal years 2007 and 2008. The payments involved competitive and non-competitive contracts (including Council grants) totaling \$656,960 and \$252,500, respectively. The Department of Health and Human Services' (DHHS') Early Childhood Services of Children, Youth and Families was responsible for monitoring the contract activities included in our review. DHHS relied on a designated contract monitor to coordinate the execution of its contracts with Centro Familia to ensure services were delivered in compliance with contract terms, and to review and approve invoices that DHHS then submitted to the Department of Finance for payment. From August 2006 to July 2008, Centro Familia submitted approximately 70 monthly invoices to DHHS ranging between \$4,507 and \$28,708.



Our review concentrated on the fiscal aspects of the contracts and related internal controls¹. We did not evaluate specific DHHS services provided by the vendor to MCG residents.

At the conclusion of our review, the results outlined in this memorandum were discussed generally with the DHHS designated points of contact. Overall, there was agreement with the findings and our analysis.

Results of OIG Review

Finding 1

Failure to comply with DHHS contract monitoring policies and requirements set forth in four contracts with Centro Familia resulted in the approval of payments in excess of \$900,000 for approximately 70 invoices covering fiscal years 2007 and 2008 without effectively verifying the validity and appropriateness of those payments.

Analysis

DHHS Program Monitoring Guidelines (March 2004 Edition) provide DHHS staff guidance for monitoring/administering contracts. Section 14, Contractor Reports and Invoices, identifies requirements and procedures to ensure invoices are reviewed to ensure proper payment. As examples, Subsection b, Invoices, states: all invoices should be carefully reviewed (by the program monitor) since secondary review of invoices does not occur outside of the Services Area; the program monitor's signature (on invoices) indicates that the contractor has delivered the required services in accordance to the contract scope of services; and the monitor's signature indicates that expenses billed have appropriate back-up documentation to justify invoice charges and are in accordance with the contract's budget or other contract compensation provisions. In addition, with regard to DHHS requirements when processing invoices for competitive and non-competitive contracts or grants, the Chief Operating Officer confirmed that procedures are basically the same once a contract or grant has been put in place.

With regard to terms of specific DHHS contracts with Centro Familia reviewed, we noted the County was required to reimburse the vendor for all actual and reasonable costs incurred in providing goods and services required by the contracts.

The DHHS monitor for Centro Familia contracts informed the OIG that her emphasis throughout fiscal years 2007 and 2008 was to determine if program services were provided in accordance with contract requirements. We were advised that for the approximately 70 invoices the monitor was responsible for approving, the monthly review and approval process consisted of ensuring that the total amount billed to date by Centro Familia did not exceed the total amount authorized for each respective purchase

¹ Internal controls, according to Government Auditing Standards published by the U. S. General Accounting Office (July 2007) serve as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of law, regulations, and provisions of contracts and grant agreements; or abuse.

order, and that the vendor's expense line by category for each month were accurately totaled. We were advised that the contract monitor neither required Centro Familia to provide supporting documentation to substantiate monthly invoices nor verified the existence of or accuracy of supporting documentation maintained by Centro Familia. We also determined that members of the DHHS Fiscal Team did not complete these checks before payment to the vendor. Further, we were advised that the procedures used to approve Centro Familia's invoices for the first six months of fiscal year 2009 were essentially the same as those used in fiscal years 2007 and 2008.

DHHS staff failure to comply with its established program monitoring guidelines and address risks associated with approving payments without verifying the validity or appropriateness of approximately 70 invoices resulted in these payments being vulnerable to fraud, waste, or abuse.

Finding 2

The inability of the vendor to provide sufficient documentation to support selected expenses itemized on monthly invoices submitted to DHHS prevented the OIG from determining the validity and appropriateness of MCG payments for any of the approximately 70 Centro Familia invoices approved in fiscal years 2007 and 2008.

Analysis

Because the process used by the DHHS monitor did not request and review supporting documentation for invoices submitted by Centro Familia, the OIG worked with DHHS staff in an effort to obtain and independently examine such documentation. Specifically, DHHS and OIG met with Centro Familia representatives, requesting that they provide documentation to justify payments for selected payroll and operating expenses specified on invoices submitted to DHHS during fiscal years 2007 and 2008. With the exception of one \$5,000 amount billed in June 2007 for program evaluation fees in conjunction with FY2007 Contract #664433019-AA (PO #7644330114), Centro Familia representatives could not provide the OIG with documentation to substantiate specific payroll and operating expenses included on the approximately 70 monthly invoices included in our review. In addition, OIG testing of selected accounting records and supporting documentation provided by Centro Familia disclosed inconsistencies, errors, and discrepancies that, to date, have not been resolved.

Centro Familia's inability to provide accounting records and supporting documentation sufficient to justify expenses included on invoices submitted to DHHS raises significant concerns about internal control deficiencies, possible fraud, waste, or abuse. Further action is required. I recommend that prior to any further OIG investigation attention, DHHS management, the Office of the County Attorney, and the Inspector General meet to assess the findings in this report. Such an assessment should consider the significance of any violations of MCG contract or grant agreements with Centro Familia and whether management should implement changes to its contract monitoring procedures before authorizing services by this vendor to continue.



OFFICE OF INSPECTOR GENERAL

Thomas J. Dagley
Inspector General

MEMORANDUM

July 3, 2008

TO: Mike Knapp, President
County Council

FROM: Thomas J. Dagley
Inspector General

SUBJECT: Review of Allegations of Improper Payments

We conducted a review of improper payment allegations related to contract work performed for the Department of Health and Human Services (DHHS) by Health Management Consultants (HMC). The review was conducted following receipt of a report alleging that DHHS actions circumvented County regulations. We found that deficiencies in internal controls resulted in four improper payments to HMC totaling \$137,700 that were approved by DHHS between June 2005 and July 2007. Our review found that DHHS management was not able to locate key files to support whether invoices were properly reviewed or required deliverables were received prior to approving the payments to HMC.

The results of our review were reported to the Director of DHHS on May 30, 2008. A copy of the report (without exhibits) is attached. In a June 30 response, copy attached, the Director concurred with our findings and identified specific corrective actions that are being implemented by management to strengthen internal controls. The corrective actions include: requiring all current and new contract monitors to attend contract management and procurement training; designating management representatives to conduct internal audits of contract files and payments; and initiating independent reviews by the DHHS Financial Management Team.

Based on the results of this review and a broader commitment to help ensure effective internal controls are in place to prevent improper payments, the OIG is conducting additional test work of DHHS payments to vendors. We are coordinating the additional work with the Director and will report our results to you. In the interim, please contact me with any comments or questions.

Attachments (2)

cc: Council Members
Timothy Firestine, CAO
Director, DHHS





DEPARTMENT OF HEALTH AND HUMAN SERVICES

Isiah Leggett
County Executive

Uma S. Ahluwalia
Director

MEMORANDUM

February 13, 2009

TO: Thomas J. Dagley, Inspector General

FROM: Uma S. Ahluwalia, Director *Uma*

SUBJECT: Review of County Contract with the Institute for Family Development (Centro Familia)

Thank you for the opportunity to respond to your findings following the Institute for Family Development (Centro Familia) contract review. We concur with the findings that were identified during the review.

We fully recognize that there are significant challenges associated with the contract monitoring process in the Department of Health and Human Services (DHHS). Our contract monitors are program based and their primary focus has often been on overseeing the quality of the services provided to our customers and clients. Strengthening our fiscal and administrative oversight of contracts is essential to assuring comprehensive contract monitoring. In addition, many of our vendors are also our non-profit collaborators and partners. We need to work with them to assure they are fully educated on the County's Procurement regulations and procedures while respecting and preserving our collaborative relationship.

Given the volume and complexity of our contracts these are significant challenges. However, they are challenges we are committed to addressing and we believe substantial progress has been made over the last year in understanding the core issues relating to contract monitoring in DHHS. To assure effective contract monitoring, senior management is actively involved and engaged in:

- providing comprehensive contract monitoring training, including fiscal monitoring;
- identifying monitors with administrative and fiscal backgrounds in addition to programmatic knowledge;
- reviewing and improving our monitoring practices;
- expanding the role of DHHS Fiscal Team in fiscal oversight of contracts;
- instituting periodic reviews of contracts by neutral parties;
- updating monitoring guidelines; and,
- working with our monitors and vendors to increase communication and address structural and organizational barriers to effective monitoring.

Office of the Director

As you requested, the following is an update with regard to the corrective actions DHHS committed to in June of 2008:

1. Require all new monitors to attend Contract Management and Procurement trainings
2. Require current contract monitors to retake available Contract Management and Procurement training if they have not done so in the past three years

STATUS UPDATE ON ITEMS 1 AND 2:

In June of 2008, DHHS instituted a policy that all new contract monitors must take the five-day County Contract Administration Course. Additionally, monitors must retake this course every three years.

The County only offers this course 3 times/year, with class registration being limited to approximately 40 individuals/class. Additionally, as this course provides training County-wide, the number of spaces available for DHHS contract monitors is limited. A number of our monitors attended the November 2008 training; however, at the end of December 2008, DHHS still had a large number of contract monitors that required training.

DHHS worked with the Office of Human Resources (OHR), the County Attorney's Office (OCA), and the Department of General Services (DGS), Office of Procurement to offer a special two day condensed version of the County's Contract Administration Course to DHHS staff. This course is scheduled for March 3-4. The class will accommodate 40 individuals. Additional DHHS contract monitors are registered in the standard five day Contract Administration Classes scheduled to begin March 4 and April 22.

At the completion of the April 22 class, approximately 75-80% of DHHS contract monitors will have completed the required training. The County has no additional classes scheduled at this time; however, due to the large number of contract monitors in DHHS, we plan to work with OHR, OCA, and DGS to continue the two day DHHS specific Contract Administration Course on a quarterly basis. We expect that by the Fall of 2009, as close to 100% as possible of our monitors will have received, or be scheduled to receive, the required training.

In addition to the County Contract Administration Course, DHHS is conducting mandatory training on a variety of contract related issues. We anticipate having six-nine of these sessions throughout the year. The format is a combination of presentation by various subject matter experts followed by question and answer sessions.

The sessions are dynamic and interactive and have resulted in increased interaction between DHHS' Contract Management Team (CMT), the Fiscal Team, and the contract monitors. Our strategy is to build on this increased collaboration between these three groups and provide additional fiscal-related training to our monitors and contract managers in CMT by involving the accountants/auditors in the Fiscal Team in the training.

To date, the following topics have been presented:

- **The Contract Payment Process-September 2008**

Topics:

- The Big Picture—How the Contract Scope, Compensation, and Deliverables Relate to Reporting Requirements, Deliverables, and Invoicing
- Roles and Responsibilities in the Contract Payment Process
- Fiscal Payment Process

- **Contract Monitoring-October 2008**

Topics:

- Roles and Responsibilities in the Monitoring Process
- Monitoring Tools, including the DHHS Monitoring Guidelines, Monitoring Reports, and Site Visits

- **Claims-What They Are and How to Avoid Them-December 2008**

Topics:

- What is a Claim?
- Roles and Responsibilities in the Claim Process
- Claim Process

- **Cost and Pricing Strategies and Developing Budgets, including indirect Costs-January 2009**

Topics:

- Price Analysis
- Developing the Contract Budget
- What are Direct Costs?
- What are Indirect Costs?
- Drivers of Indirect Costs

- **Upcoming Topics**

March 2009—2010 Contract Renewals

April 2009—Year-End Training, Including Accruals, Encumbrances, and Liquidations

July 2009—Reviewing Financial Information, Including Invoices and Backup Documentation

DHHS is also engaged in updating and expanding the DHHS Monitoring Guidelines to include the topics above.

3. Require that Managers designate a neutral party to conduct regular sample audits to assure that contract files are complete and that all purchase orders and payments have been executed properly.

STATUS UPDATE ON ITEM 3:

Effective March 2009, DHHS has established a Contract Monitoring Review Committee. See **Attachment (1)** for details on the scope, composition and methodology of the Committee.

4. Initiate an independent review by the Health and Human Services Financial Management Team of a sample of additional BHCS contract files to assure procurement and contract management procedures are being followed.

STATUS UPDATE ON ITEM 4:

DHHS conducted a review of 11 contracts in Behavioral Health and Crisis Services (BHCS) during August-October of 2008.

The purpose of this review was to assure that procurement and contract management procedures are being followed, including verifying that services were provided under a properly executed contract and purchase order. The contracts for review were selected by the Chief Operating Officer and the Chief, Financial Operations. Initial review focused on the fiscal year 2007 and 2008 timeframe with additional testing being conducted if specific problems were identified. A former member of the DHHS Fiscal Team (Auditor/ Accountant III) conducted the review.

Of the 11 contracts reviewed, significant findings were noted on one (1) of the contracts. We are conducting additional testing on this contract.

5. Require that all additional funds encumbered in the last quarter of the fiscal year are approved by the Service Area Chiefs to certify that the deliverables can and will be accomplished by June 30

STATUS UPDATE ON ITEM 5:

All contract actions are reviewed by the Chief, Financial Operations and the Chief Operating Officer.

The DHHS Contract Action Worksheet (CAW) is being updated to include a requirement that Service Area Chiefs approve encumbrances during the last quarter (April-June) of the fiscal year.

Contract Monitors will be required to attend year end training. This training will include issues relating to contract encumbrances, accruals, and liquidations.

We look forward to continued collaboration with your office. Your input and assistance is greatly appreciated.

USA:kr

Attachment

DEPARTMENT OF HEALTH AND HUMAN SERVICES CONTRACT MONITORING REVIEW COMMITTEE (CMRC)

Purpose:

- Using a team-based approach, conduct regular sample audits to assure that contract files are complete and that all purchase orders are complete and payments have been executed properly.

Members:

- Chair: Financial Operations, Fiscal Team Leader
- Program
 - Administrative Services Coordinators from service areas
- Financial
 - Fiscal Team, Accountant/Auditor III
 - Compliance Team , Accountant/Auditor III
- Contracts Management Team (CMT)
 - Senior Monitor, Contract Management Team
 - Manager, Contract Management Team

Methodology:

- Each quarter, the CMRC will review at least one contract in each program area.
- Contracts to be reviewed will be selected by the Chief Operating Officer and the Chief, Financial Operations
- The contract review will include the following:
 - Ensure a properly executed contract and associated Purchase Order(s) are in place.
 - Review monitoring files to ensure that the Department of Health and Human Services (DHHS) monitoring guidelines are being adhered to with regard to compensation, deliverables, reporting requirements, and site visits.
 - Review invoices and associated back-up documentation.

Reporting requirements:

- The Senior Contract Monitor will prepare a summary report for each contract reviewed. The report must identify all discrepancies noted and CMRC recommendations for corrective action.
- This report will be submitted to the Chief Operating Officer and the Chief, Financial Operations.
- The Chief Operating Officer and the Chief, Financial Operations will work with the Service Area Chiefs to implement appropriate corrective action.
- A quarterly summary of the findings and corrective actions will be provided to the Director, DHHS.