



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





OFFICE OF INSPECTOR GENERAL

Thomas J. Dagley
Inspector General

MEMORANDUM

May 30, 2008

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

FROM: Thomas J. Dagley
Inspector General

SUBJECT: Review of Allegations of Improper Payments Regarding Contract Work
Performed by Health Management Consultants

Attached please find a memorandum from Charles H. Becker, Assistant Inspector General, regarding a review of allegations of improper payments related to contract work performed for the Department of Health and Human Services by Health Management Consultants.

We are providing you with this information in order that a decision can be made on what, if any, action may be appropriate to address the concerns. Please advise me, in writing, of your decision by June 30, 2008. Due to the conditions reported, the OIG needs to determine whether a more comprehensive review of DHHS payments to vendors is needed. If any additional information or assistance is needed on this matter, please do not hesitate to contact me or Charlie Becker at 240-777-8240.

Re: #07-12

Attachment

Cc: David Dise, Director, Office of Procurement
Kathleen Boucher, ACAO






OFFICE OF INSPECTOR GENERAL

Thomas J. Dagley
Inspector General

MEMORANDUM

May 30, 2008

TO: Thomas J. Dagley
Inspector General

FROM: 
Charles H. Becker
Assistant Inspector General

SUBJECT: Review of Allegations of Improper Payments Regarding Contract Work Performed by Health Management Consultants

I am providing you with the results of my review of allegations regarding improper payments related to contract work performed by Health Management Consultants (HMC), a company providing contract services to the Department of Health and Human Services (DHHS).

Complaint Summary

The basis of the review is an allegation that, in order to use Community Mental Health Grant funds prior to the end of a fiscal year, DHHS staff processed purchase orders and improperly approved the payment of HMC invoices, knowing that the work had not been performed. The complainant further alleged that the proximity to the end of a fiscal year and the short period of time between the approval of a purchase order and subsequent submission of invoices by HMC made it "inconceivable that the contractor had performed the services by year end." The complainant alleged that actions by DHHS staff and/or HMC circumvented grant and procurement regulations.

OIG Analysis

In conducting the preliminary phase of our review, we identified four HMC projects where purchase orders were approved and HMC invoices were submitted near the end of fiscal years 2005, 2006, and 2007. Table A provides a summary of transaction details related to the four projects included in our review.



Table A
Summary of Transaction Details of Purchase Orders (PO)
Issued For Work Performed by HMC

Project	Date PO Signed by Procurement	Date Invoice Submitted by HMC	Number of Days between PO and Invoice	Date Invoice Approved by DHHS	Payment Date by Finance
Consumer Satisfaction Survey PO #5648000265 - \$25,000	6/10/05	6/16/05	7	6/21/05	6/28/05
Development of Adult Case Rate PO # 5648000267 - \$34,077	6/28/05	6/30/05	3	7/01/05	8/16/05
Management Consulting Services Reginald Lourie Center and Family Services Agency PO # 6648050208 - \$41,123	6/30/06	6/30/06	0	8/21/06	8/23/06
Technical Assistance Review Reginald Lourie Center and Family Services Agency PO # 7648050191 - \$37,500	6/18/07	6/20/07	3	6/22/07	7/16/07

Our preliminary review of the four purchase orders included in Table A revealed that the longest elapsed time between the approval of a purchase order by the Office of Procurement and the submission of an invoice by HMC was seven days and the shortest time was zero days. Based on the allegation received and our preliminary review of the four projects, we conducted a detailed review to assess the compliance with certain contract terms and the propriety of the four payments made to HMC. Review details are provided on the following pages of this memorandum.

Missing DHHS Files

Condition

DHHS management was not able to locate files or documentation to support whether required deliverables by HMC were received or if appropriate reviews were conducted in conjunction with DHHS' approval of \$137,700 in HMC invoices related to the four purchase orders included in our review.

Results of OIG Review

Systems Planning & Management (SPM) of Behavioral Health and Crisis Services, DHHS was responsible for monitoring the contract work performed in conjunction with the four purchase orders included in our review. In October 2007, OIG requested SPM to provide all DHHS files, including documentation that supported receipt of contract deliverables from HMC, for the four purchase orders (see Exhibit 1). In response to this request, SPM was able to provide evidence of a deliverable for only one of the four projects – the evidence was an undated copy of the final report (without appendix) and correspondence from HMC regarding the Consumer Satisfaction Survey for PO #5648000265. We were informed by SPM management that no other evidence of deliverables or DHHS files for the four purchase orders could be located.

From January-April 2008, DHHS management was unsuccessful in efforts to locate other contract deliverables and documentation regarding the review and approval by DHHS of HMC invoices related to the four purchase orders. In February and again in April 2008, the Chief, Behavior Health and Crisis Services confirmed that the requested documentation could not be located.

Without access to key DHHS files, we found no support that the DHHS contract managers who approved HMC invoices totaling \$137,700 ensured that the required deliverables were ever received by DHHS. Consequently, there is not sufficient documentation to support the appropriateness of the payments made to HMC.

PO # 5648000265 - Consumer Satisfaction Survey Approval and Payment of Invoices Prior to Completion of Contractor Work

Condition

HMC submitted a \$25,000 invoice at the end of fiscal year 2005 related to a Customer Satisfaction Survey project funded by a Community Mental Health Grant. DHHS management approved this invoice for payment although the work required under the purchase order had not been completed. This resulted in a \$25,000 improper advance payment in violation of the County procurement regulations and potential violation of State requirements for grant funding.

Results of OIG Review

PO #5648000265 for a Consumer Satisfaction Survey was signed by the Office of Procurement on June 10, 2005 (see Exhibit 2). An invoice for \$25,000 was submitted by HMC on June 16, 2005 (see Exhibit 3) and approved for payment by a contract manager, SPM, DHHS on June 21, 2005. As stated previously in this report, although SPM provided OIG with an undated copy of the final report (without the appendix) and related HMC correspondence regarding the Consumer Satisfaction Survey, no other files related to the purchase order were located.

The OIG interviewed the Executive Vice President of HMC regarding the four task orders included in the scope of our review. He informed us that, with regard to the Consumer Satisfaction Survey, HMC submitted its invoice in June 2005 and was paid according to the contract terms with the understanding that the required work would be completed subsequently. He explained that as the end of the fiscal year (June 30, 2005) approached, grant monies used to fund the project needed to be committed and the work was supposed to be done prior to the end of the fiscal year. He explained that HMC submitted the invoice prior to performing the work because it was his understanding that if the money was not spent by the end of the fiscal year it would have gone back to the State and no longer be available. The Executive Vice President provided OIG with a copy of the undated final report (and appendix) entitled "An Analysis of Consumer Satisfaction."

One of the documents OIG obtained from DHHS included an e-mail dated July 18, 2006 from the Vice President for Mental Health Consulting, HMC to DHHS stating "The process has taken longer than expected, but attached please find a draft of the report on the Consumer Satisfaction Survey." Although the e-mail does not document the date a final Customer Satisfaction Survey report was delivered to DHHS, it does show that a final product had not been delivered 13 months after the \$25,000 invoice was submitted by HMC and approved for payment by DHHS.

COMCOR Chapter 11B.00.01 Procurement Regulations Section 8.4 Advance Payments states:

A contract may provide for advance payment if the advance payment is part of a commercially acceptable practice as in the case of equipment and software maintenance, periodical subscriptions, registrations, travel, catering service, license fees, and insurance premiums. In other cases, the director of Finance and the Director (Procurement) may approve an advance payment if they determine that unique circumstances exist which indicate that an advance payment is in the best interest of the County.

The OIG sent a January 11, 2008, request to the Director of Procurement for information related to the four purchase orders included in our review. In a February 15, 2007 e-mail response from the Director, he informed the OIG that regarding the four purchase orders:

"Office of Procurement files did not contain records of advance payments on those contracts. Typically, if a contract allowed for advance payments a record of the DOF authorization to allow such would be in the file. These contracts and related task orders contained no clause permitting advance payments."

OIG met with SPM management, DHHS to discuss the process by which contractors submit and DHHS approves invoices for payments funded by Community Mental Health Grants, including the process at the end of a fiscal year when contracted work is not completed prior to the end of the fiscal year. We were advised that trying to get work funded by grants finished by the end of the fiscal year has been an ongoing dilemma and

that if contracted work is not finished and the grant funds are not spent during a fiscal year, the County runs the risk of losing those grant funds not only for the current year but also future years. We were advised that attempts to get contract work funded by grants finished and paid by the end of the fiscal year are hampered by County requirements that the work be completed and the product delivered before payment is made. We were advised this is not always possible and, as a result, contractors will be forced to submit invoices stating that their work is completed before the end of the fiscal year when, in fact, the work cannot be completed until sometime during the next fiscal year. The process was described to us as a "sleight of hand with the right intention."

The OIG met in March 2008 with the Chief, Finance & Procurement, Mental Hygiene Administration, Maryland Department of Health and Mental Hygiene (DHMH). His office oversees the State's administration of Community Mental Health Grant Funds awarded to Maryland jurisdictions, including Montgomery County. He stated contracts which provide Community Mental Health Funds to Montgomery County are awarded on a fiscal year basis with the effective date July 1 and the termination date of the contract June 30 of the respective fiscal year. He provided the OIG with a copy of the Local Health Department Funding System (LHDFS) Manual. The Manual specifies administrative and fiscal policy for all funding originating in the LHDFS, authorized by DHMH to local health departments, and reflected on a Unified Funding Document. He advised Section 2030.06, Funding Period, states that funds are awarded for a specific period (fiscal year) noted in the award letter and the Unified Funding Document. Local health departments must expend the funds during the designated period.

The Chief stated that efforts by local health departments to circumvent the DHMH policies related to use of grant funds during a particular fiscal year may result in the local health department being required to repay those monies to the DHMH.

**PO # 5648000267 - Development of Adult Case Rate
Failure by HMC to Provide Required Deliverables**

Condition

Our review revealed that DHHS approved and HMC was paid \$34,077 in improper advance payments in August 2005 for activities related to the Development of an Adult Case Rate. Our review also disclosed that although HMC submitted an invoice and received \$34,077, it did not provide DHHS with the required final product and has not repaid the County for monies received that are related to this project.

Results of OIG Review

The purchase order for Development of Adult Case Rate (PO # 5648000267) was signed by the Office of Procurement on June 28, 2005 (see Exhibit 4), and the invoice for \$34,077 was submitted to DHHS by HMC on June 30, 2005 (see Exhibit 5), approved for payment by DHHS on July 1, 2005, and paid by the Department of Finance on

August 16, 2005. As stated previously, the Director, Office of Procurement, informed OIG that DHHS had not received the appropriate advance payment approvals for any of the four projects included in our review, including the \$34,077 paid to HMC for the Development of Adult Case Rate.

OIG requested the Executive Vice President, HMC, to provide documentation to substantiate that HMC provided DHHS with deliverables required by the task order for the Development of Adult Case Rate. In response to our request, he stated he could not provide OIG with a final product because HMC did not prepare or issue a final report to DHHS for this project. He stated that the data "never went anywhere" because HMC was under the impression that the State Medicaid Administration "pulled the plug" prior to implementation because they were uncomfortable adding programs and clients. We were advised HMC did not have any documentation to support that the project was stopped. However, we were advised HMC submitted a draft report to the former Manager, SPM, DHHS and HMC did not receive any feedback. As a result, HMC did not perform any additional work and did not submit a final report. We were advised that although HMC has not provided DHHS with the product for which it received payment in 2005, HMC has not returned any of the \$34,077 to the County.

PO # 6648050208 - Management Consulting Services
PO # 7648050191 - Technical Assistance Review
The Reginald Lourie Center and Family Services Agency
Completion of Work Prior to Initiation of the Procurement Process

Condition

HMC performed \$78,623 in consulting services at the request of the former Manager, SPM, DHHS prior to appropriate processing and approval of purchase orders related to those services by the Office of Procurement. DHHS failed to request and obtain the required approvals from the Director, Office of Procurement to make \$78,623 in payments to HMC. Further, according to the terms of the contract, the County had no obligation to make these payments.

Results of OIG Review

The Executive Vice President of HMC advised the OIG that the work performed by HMC regarding the two purchase orders for Management Consulting Services (PO #6648050208 - \$41,123) and Technical Assistance Review (PO #7648050191 - \$37,500) for the Reginald Lourie Center and Family Services Agency was completed as much as a year prior to DHHS initiating the procurement process. He stated that work related to the Reginald Lourie Center and Family Services Agency was done by HMC as a result of a request by the former Manager, SPM, DHHS to provide immediate assistance to those organizations. According to HMC, both organizations were in financial trouble and needed immediate assistance related to financial programs. We were advised that HMC performed the work based on an understanding that the SPM Manager would subsequently arrange for funding to pay for the work.

According to the HMC Executive Vice President, both purchase orders related to the Reginald Lourie Center and Family Services Agency were generated in order to pay HMC for services already performed and without following a competitive procurement process. We were advised that this situation occurred as a result of a quick turnaround required to work with the clients and the "utterly slow (County) procurement process" involved in completing required paperwork. We were further advised that the flow and management of monies at the core service agency level is such that there can be a rush in the spring to make the best use of available/unspent dollars to avoid reverting it to the General Assembly. Thus, task orders and work start dates do not always seem to make sense. We were advised this situation is caused by the process rather than fraud or misconduct and that this situation is not unique to Montgomery County.

The purchase order for Management Consulting Services for the Reginald Lourie Center and Family Services Agency for \$41,123 was signed by the Office of Procurement on June 30, 2006 (see Exhibit 6). HMC submitted two invoices totaling \$41,123 on June 30, 2006 – one in the amount of \$9,951 for Family Services Agency (see Exhibit 7) and one for \$31,172 for the Lourie Center (see Exhibit 8). The OIG requested documentation from HMC to support the invoices submitted to DHHS for the work done. The documentation obtained from HMC indicates that work invoiced on June 30, 2006 was related to Reginald Lourie Center for the period July 20, 2005 through April 14, 2006 and the Family Services Agency for the period February 2 through April 28, 2006.

The purchase order for a Technical Assistance Review for the Reginald Lourie Center and Family Services Agency for \$37,500 was signed by the Office of Procurement on June 18, 2007 (see Exhibit 9). HMC submitted an invoice for \$37,500 on June 20, 2007 (see Exhibit 10). OIG also requested HMC to provide details related to the timing of work performed on the Technical Assistance Review for the Reginald Lourie Center and Family Services Agency. However, HMC did not provide OIG with documentation to support the \$37,500 paid to them in conjunction with this purchase order. In an e-mail dated April 6, 2008, HMC informed OIG that some of the work was performed by HMC three years ago and during that time HMC moved to a different office and experienced a computer server crash. We were advised this precluded HMC from providing the requested documentation.

Since DHHS could not locate files related to this project and HMC was unable to provide documentation to support payments made, we were unable to determine the appropriateness or validity of \$37,500 in payments made by the County to HMC.

The contracts governing the purchase orders included in this review (Contracts #3648001009-FK and #6648050201-EE) were signed by HMC and contained as an attachment to the County's standard General Conditions of Contract Between County & Contractor. The Payments paragraph of the General Conditions section states:

The contractor must not proceed to perform any work (provide goods, services, or construction) prior to receiving written confirmation that the County has appropriated and encumbered funds for that work. If the contractor fails to obtain this verification from the Office of Procurement prior to performing the work, the County has no obligation to pay the contractor for the work.

Since the work was performed prior to the Office of Procurement notifying HMC that the County had appropriated and encumbered funds for the work, the terms of the contract provided the County the option of not paying HMC for the work.

COMCOR Chapter 11B.00.01 Procurement Regulations Section 13 Claims, provides for the payment of contractors who at the direction of County employees perform services outside a contract. Performance outside a contract includes performing tasks under a contract without a timely certification of funds. The regulations state that claims are not encouraged and must be avoided, whenever possible, by the Using Department. In addition the process is discretionary and does not create any rights to payment unless the claim is approved by authorized County officials.

According to the regulations, if tasks are performed under a contract without a timely certification of funds, the Director, Office of Procurement, may approve a claim after determining that sufficient funds have been encumbered to pay for the cost of the services. In order for the claim to be approved, the Using Department Head must submit a memorandum to the Director of Procurement:

- 1) requesting approval;
- 2) explaining why funds had not been encumbered; and
- 3) describing what steps the Using Department has taken to avoid a similar claim in the future.

Our review revealed that DHHS did not submit such a request to the Director, Office of Procurement, for either purchase order related to work performed in advance by HMC for the Reginald Lourie Center and Family Services Agency. As a result, \$78,623 in payments were made to HMC without required approval by the Director, Office of Procurement

Re: #07-12

Attachments (10)



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Isiah Leggett
County Executive

Uma S. Ahluwalia
Director

MEMORANDUM

June 30, 2008

TO: Thomas J. Dagley
Inspector General

FROM: Uma A. Ahluwalia, Director *U.A.*

SUBJECT: Response to Review of Improper Payments Regarding Contract
Work Performed by Health Management Consultants

I am in receipt of your review of allegations of improper payments regarding contract work performed by Health Management Consultants (HMC). I appreciate and value the important independent review that the Office of the Inspector General (OIG) has provided. The review was thorough, detailed, and constructive. Most importantly it will serve as a vital tool in assisting the department to further improve business practices.

My staff and I have carefully reviewed the results of your findings. In the areas where weaknesses have been identified, my intent is to use the information gained from this report to improve and correct our business practices to prevent the likelihood of these types of issues occurring in the future. The department completely understands the need to ensure all business processes completely align with established County procurement policies and procedures.

Regarding the four purchase orders in question, following are my comments regarding each purchase order:

- **Purchase Order #5648000265 - \$25,000 for Consumer Satisfaction Survey**
The department concurs with the OIG's findings regarding improper advance payment. Although System Planning and Management (SPM) provided OIG with an undated copy of the final report (the appendix was provided by HMC) and related HMC correspondence regarding the Consumer Satisfaction Survey, no other files related to the purchase order were located and payment was inappropriately made prior to completion of the report.

Office of the Director

- **Purchase Order #5648000267 - \$34,077 for Development of Adult Case Rate**

DHHS concurs with the findings and acknowledges no final case rate product was submitted by HMC and payment should not have been made.

- **Purchase Order #6648050208 - \$41,123 for Management Consulting Services; Purchase Order # 7648050191 -\$37,500 for Technical Assistance Review; and, Family Services Agency and the Reginald Lourie Center Contracts**

The department concurs with the OIG findings. Work was completed in advance of initiating the procurement process and a competitive procurement process was not instituted prior to HMC conducting the work.

These inappropriate payments were authorized by staff reporting to the Administrator of the Core Service Agency who was supervised by the former Chief of Behavioral Health and Crisis Services. Both of these individuals have left county service. We are currently evaluating what the appropriate action is for other staff that remain with the county and were involved with these payments. We are consulting with the County Attorney's Office to determine if we are able to seek repayment from the vendor. We are also continuing our work with Internal Audit which began last year to assure accuracy and transparency in our business processes.

The department must make every effort to adhere to all procurement regulations. The following safeguards are being implemented to assure similar events do not reoccur.

1. Require all new contract 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.
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.

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

Finally, on behalf of DHHS, I would like to thank you for taking the time to conduct such an exhaustive and informative review. We take this information very seriously and are committed to make every effort to have sufficient internal control procedures that assure the appropriate payment of vendor invoices.

Please do not hesitate to contact me with additional questions and/or comments.

USA:tjk