City of Austin

Social Services Contract Monitoring Audit

October 2011

Office of the City Auditor

City Auditor
Kenneth J. Mory
CPA, CIA, CISA

Deputy City Auditor
Corrie E. Stokes
CIA, CGAP

REPORT SUMMARY

We found that contract monitoring activities at the Health and Human Services Department are insufficient and hinder the department's ability to provide reasonable assurance that services are delivered according to contract terms and that City funds are not misused. We identified material control weaknesses within the monitoring program, and as a result, we have issued multiple recommendations.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT TEAM

Rachel Snell, Assistant City Auditor, CIA, CFE, CICA
Naomi Marmell, Auditor-In-Charge, CGAP, CICA
Kathie Harrison, CGAP, CFE, CICA
Rebecca Takahashi, CGAP
Ben Leffler, Intern

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October 2011

Audit Report Highlights

Why We Did This Audit

This project was included in the FY 2011 Strategic Audit Plan as a result of concerns identified by the Health and Human Services Department (HHSD) related to contracting policies, procedures, and processes.

What We Recommend

We recommend that Health and Human Services Department strengthen its contract monitoring policies and practices, ensure staff is trained in and performing contract monitoring duties as required, and strengthen IT controls.

For more information on this or any of our reports, email oca_auditor@austintexas.gov

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Mayor and Council,

I am pleased to present this audit on Social Services Contract Monitoring at the City's Health and Human Services Department (HHSD).

BACKGROUND

The HHSD's Human Services Division monitors social services contracts and grants. From FY 2009 through FY 2011, there were 82 active social services contracts (funded from City revenues), which total approximately $54 million. These contracts provide services for basic needs, mental health/substance abuse, workforce development, child care, homeless services, and youth development.

OBJECTIVE AND SCOPE

Our audit objective was to determine whether the HHSD contract monitoring process ensures compliance with contract terms and conditions.

The audit focused on social services contracts in effect during FY 2009 through FY 2011.

WHAT WE FOUND

Weaknesses in HHSD's contract monitoring program included:
- lack of, or inconsistent contract monitoring;
- not adhering to contract monitoring best practices; and
- insufficient IT system security and data reliability controls.

We issued two recommendations to address weaknesses identified during the course of the audit.

We appreciate the cooperation and assistance we received from staff in the Health and Human Services Department during this audit.

Kenneth J. Mory, City Auditor

BACKGROUND

This project was included in the FY 2011 Strategic Audit Plan as a result of concerns identified by the Health and Human Services Department (HHSD) related to contracting policies, procedures, and processes. The Human Services Division monitors social services contracts and grants. From FY 2009 through FY 2011, there were 82 social services contracts (funded from City revenues), which totaled approximately $54 million. These contracts provide services for basic needs, mental health/substance abuse, workforce development, child care, homeless services, and youth development. Social service contract information is maintained in a contract management information system, which tracks contractors' budgets and report submissions, as well as administrative information and monitoring activities.

The prior HHSD Director retired in January 2011, and the current Director joined the City in August 2011, after audit work was substantially complete.

OBJECTIVES, SCOPE, AND METHODOLOGY

This performance audit of Social Services Contract Monitoring was conducted as part of the Office of City Auditor's FY 2011 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee.

Objectives
Our audit objective was to determine whether the contract monitoring process ensures compliance with contract terms and conditions.

Scope
The audit focused on social services contracts in effect during FY 2009 through FY 2011.

Methodology
To accomplish our audit objectives, we performed the following steps:
- interviewed key HHSD and contractor personnel;
- conducted onsite visits at contractor facilities;
- analyzed contract documentation and data generated from automated systems and other manual systems used by HHSD;
- evaluated applicable laws, policies and procedures, and best practices; and
- selected a risk-based judgmental sample of contracts for document review and/or site visits.

We initially sampled five contracts for document review and site visits, and later sampled an additional four contracts for site visits only.

AUDIT RESULTS

Contract monitoring activities are insufficient and hinder the Health and Human Services Department's (HHSD) ability to provide reasonable assurance that services are delivered according to contract terms and that City funds are not misused.

In general, HHSD has not performed contract monitoring as required by internal policies and procedures, applicable contract requirements, or industry best practices. While issues regarding monitoring were raised in 2009 related to fraud by an HHSD contractor, management did not ensure staff performed contract monitoring duties as required. In addition, most staff members did not have prior contract monitoring experience, and HHSD does not have a training program in place to ensure staff is trained to perform contract monitoring duties. Documentation of monitoring performed is not maintained consistently by staff, and is not maintained consistently by HHSD for official record retention purposes. Further, IT controls over the contract management system used by HHSD do not provide sufficient assurance for security or data reliability.

Finding 1: HHSD has draft policies and procedures for conducting contract monitoring; however, contract monitoring has not been conducted consistently, and HHSD cannot provide assurance that contracted services are provided as purchased by the City.

Contract monitoring is subject to HHSD policy. The draft HHSD procedure manual states that on-site reviews for contracts should be performed on a three-year cycle with invoice verification reviews (IVR) occurring in Year 1, administrative and financial review (AFR) in Year 2, and programmatic reviews (PR) in Year 3. HHSD does not have policies and procedures related to reviews of performance measure reports submitted by contractors; however, according to management, staff is required to review these reports in practice.

We conducted reviews of 5 contracts to determine the extent to which contract monitoring was performed. (See Exhibit 1).

EXHIBIT 1
Monitoring of Social Services Contracts by HHSD

Name of Contract	FY09 IVR	FY10 AFR	FY11 PR
Austin Area Urban League: Workforce Training & Career Development	YES (in 2010)	NO	NO
AISD: After School Enrichment Program	YES (in 2010)	NO	NO
Front Steps: ARCH	YES (in 2010)	NO	NO
Salvation Army: Women and Children's Shelter	YES (in 2010)	NO	NO
Workforce Solutions: QC3	YES (in 2010)	NO	NO

SOURCE: OCA analysis of HHSD documentation, August 2011.

We found that none of the five contracts reviewed had on-site monitoring as required. Staff performed IVRs in fiscal year 2010 using 2009 data, and there was no evidence that AFRs or PRs were conducted as required. We also found that staff does not consistently verify the

performance measure reports submitted by contractors, and 14 of 45 performance reports reviewed (31%) lacked evidence of HHSD review.

Management oversight of and communication with staff is insufficient, and staff are not held accountable for performing contract monitoring duties as required. For example, staff reported that management redirected resources to the development of the new contracting process instead of enforcing expectations related to contract monitoring. Staff also stated they did not conduct on-site visits during the new contracting process out of concern for violating the City's anti-lobbying ordinance, but management stated contract monitoring could be performed without violating the ordinance.   In addition, staff reported that policies are in draft form because procedures are changing and have not been finalized by management.

Additionally, staff reported that their job duties also include funding application review, technical assistance, and regular communication with the contractors. Some staff believes this creates conflicts of interest and hinders their ability to conduct objective contract reviews.

Without consistent monitoring, HHSD cannot ensure that services are provided in accordance with contract terms and conditions. For example, during site visits at 9 agencies[1], auditors found that one contractor, LEAP, could not provide documentation of services provided. Furthermore, HHSD cannot provide assurance that agencies are using City funds as intended. For example:
- LEAP was unable to provide documentation to reconcile revenues and expenditures and LEAP commingled City funds. In 2010, HHSD staff notified LEAP of the need to modify its accounting practices.
- Austin Area Urban League had not paid payroll taxes for several months during our scope period and did not have support for the resulting adjustments made to their HHSD payment requests.
- The Council on At-Risk Youth did not have documentation to tie their accounting statements to their expenditure reports to HHSD.

Overall, HHSD's contract monitoring practices allowed for payment of invoices without proof of service or verification of invoice validity, and appropriate follow up was not performed to ensure deficiencies identified were corrected.

FINDING 2: HHSD's contract monitoring program does not adhere to best practices, which decreases HHSD's ability to detect fraud, waste, or abuse, identify contract non-compliance, or protect against the misuse of City funds.

According to the best practice guidance offered by the State of Texas Contract Management Guide and the City of Austin Contract Monitoring Guide, contract monitoring programs should include such protocols as:
- standardizing contract monitoring practices across the division,
- creating risk-based monitoring plans,
- reviewing invoices prior to payment,
- ensuring payment is tied to performance, and
- establishing minimum expectations for staff training and expertise.

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[1] For a complete list of contractors visited, see Appendix B.

According to staff, not all contract terms are represented in the review process. Notably missing is monitoring to ensure that contractors perform background checks on individuals that work with children, and monitoring to ensure contractor funds are not commingled. We reviewed the processes in place for the contractors who should have conducted background checks and did not note any exceptions. One contractor comingled funds, and although HHSD identified the issue, staff did not follow up to ensure it was corrected. Furthermore, HHSD does not maintain a centralized listing of all grants and contracts, or track grantor audits performed, so there is no mechanism to ensure appropriate monitoring of all contracts under HHSD's purview.

In terms of conducting risk-based monitoring, according to staff, some contractors are subject to additional levels of review as a result of past non-compliance, but these decisions are not documented and clear criteria for additional review levels do not exist.

In addition, best practice calls for reviewing all invoices prior to payment. However, HHSD policy requires invoice verification once every three years, and HHSD does not have a process in place for reviewing or confirming reported expenditures on a more regular basis. For example, we found that invoices were not reviewed prior to payment in two of the five (20%) sampled contracts.

Furthermore, best practice calls for tying payment to performance, but the social services contracts sampled do not include performance requirements. Performance goals are included in the statement of work but are not enforced as part of the contract monitoring process or tied to payment.

Other weaknesses reported by HHSD staff regarding the contract monitoring program include:
- training is not provided,
- most employees assigned to perform contract monitoring duties have limited or no prior contract monitoring experience,
- inconsistent use of the contract management system by staff,
- support documentation is not always submitted by or requested from contractors, and
- inconsistent maintenance and retention of contract documentation.

According to HHSD management, many of the weaknesses noted above are due to a cultural shift Citywide between a contracting approach that focuses on supporting agencies (providing funding with limited oversight) and purchasing services (tying service provision directly to funding.) In addition, monitoring activities are decentralized across the Human Services Division and, as previously noted, are performed by staff who also work closely with contractors in planning and capacity-building roles.

Overall, the weaknesses identified above hinder HHSD's ability to detect fraud, waste, or abuse, identify contractor non-compliance, or protect against the misuse of City funds. Insufficient contractor accountability standards increases the risk that the City will pay for services that were not delivered or pay contractors who did not meet contractual expectations. Failure to confirm background checks potentially jeopardizes client safety. Without an integrated risk assessment process, non-compliant contractors may not receive the necessary level of oversight. These risks are compounded by the lack of centralized tracking of grants and contracts.

FINDING 3: Security and data reliability controls over the contract management system are insufficient, increasing the risk for unauthorized access to data and maintenance of inaccurate contract information.

HHSD's password security procedures for the contract management system do not comply with best practice. Since this system is web-based, it can be accessed from any computer, increasing the risk exposure. See Exhibit 2 for the difference between best practices and HHSD practices.

EXHIBIT 2
Variances Between CTM Standards, Management System Design, and HHSD Practice

Best Practice	Management System Manual	HHSD Practice
Password requirements: ▪ at least eight characters ▪ must contain three out of four from 　▫ uppercase letters 　▫ lowercase letters 　▫ numbers 　▫ special characters	Optional password requirements: ▪ minimum length (up to 15 characters) ▪ at least one uppercase letter and/or at least one number and/or at least one special character	Password requirements: ▪ at least three characters
Passwords changed every 45 days	Optional password timer: passwords can be valid for up to 180 days	Passwords changed once a year
Cannot reuse last three passwords	No restrictions on password resuse	No restrictions on password reuse
Lock out after five failed log-in attempts	Optional lock out after failed log-in attempts (can be set from 2 to 10)	No limit on failed log-in attempts

SOURCE: OCA analysis of management system practices, August 2011.

The management system has optional features that would comply with some components of industry best practices, however they have not been implemented. According to staff, the system's password requirements were established to make the system friendly to users (both HHSD staff and contractors), and the contract with the system's vendor does not require the vendor to adhere to best practice.

During our review of data, we also noted that two levels of authorization are required for payment approval, but for 11 out of 53 contractors (21%), the same HHS staff person routinely authorizes payments for both levels.

In addition, we noted that data entered into the management system is not always accurate. For example, report date entered as a date prior to the date the monitoring was performed, and
▪ risk scores[2] are entered via a drop down menu and via manual entry, and 2 out of 10 (20%) of the agencies sampled revealed that the risk scores did not match

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[2] As noted in Finding 2, HHSD's risk-based decisions are not fully documented. There is also a risk-assessment process as part of contract close-out, which is recorded in the contract management system. However, it does not drive monitoring decisions.

The management system produces exception reports for illogical dates, but these reports are not used consistently by staff. There is no process in place to verify the accuracy and completeness of data entered into the system, prevent entry of illogical dates, or enforce segregation of duties for payment approval.

As a result, although we found no instances of unauthorized access during the course of our audit, HHSD's control system is inadequate to provide assurance that such access has not occurred. In addition, we did not identify any inappropriate payments in our audit, but without safeguards for segregated duties, HHSD cannot protect against unauthorized payments to contractors, which could result from collusion between the staff and the contractors to which they are assigned. Inaccurate and incomplete information within the database limits staff's ability to use the information for decision-making, and places the City at risk for housing inaccurate public records.

Recommendations:

The recommendations listed below are a result of our audit effort and subject to the limitation of our scope of work. We believe that these recommendations provide reasonable approaches to help resolve the issues identified. We also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendations. As such, we strongly recommend the following:

1. **The HHSD Director should create a complete contract monitoring system that includes the following components:**
   - **contract monitoring policies and procedures that comply with best practices, are formally adopted, and communicated to staff;**
   - **contract monitoring is performed and documented in accordance with HHSD policies, procedures, and best practices;**
   - **review of organizational structure, job duties, and personnel within the contract monitoring function, in order to determine whether changes are needed to ensure objectivity and independence in performing contract monitoring roles and responsibilities; and,**
   - **a formal, documented training program specific to training needs that is provided to staff.**

MANAGEMENT RESPONSE: **Concur**. Refer to Appendix A for management response and action plan.

2. **The HHSD Director should consider consulting with Communication and Technology Management and should ensure that parameters regarding management system access, security, and data reliability comply with industry best practice.**

MANAGEMENT RESPONSE: **Concur**. Refer to Appendix A for management response and action plan.

Austin/Travis County Health and Human Services Department

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MEMORANDUM

TO: Ken Mory, City Auditor

FROM: Carlos Rivera, Director, Austin/Travis County Health and Human Services   CR

DATE: October 24, 2011

SUBJECT: Social Service Contract Monitoring Audit Management Response

Attached please find HHSD's Management Responses to recommendations contained in the Social Service Contract Monitoring Audit Report.

I greatly appreciate the insight provided regarding contract monitoring. HHSD has initiated significant actions to address the matters identified and to ensure the community receives the services specified in our contracts.

Please contact me with any questions.

Thank you,

Carlos Rivera

1 Attachment

cc: Bert Lumbreras, Assistant City Manager
      Shannon Jones, Deputy Director, HHSD
      Kymberley Maddox, Chief Administrative Officer, HHSD
      Vince Cobalis, Assistant Director, HHSD

Social Services Contract Monitoring Audit

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
1. The HHSD Director should create a complete contract monitoring system that includes the following components: • contract monitoring policies and procedures that comply with best practices, are formally adopted, and communicated to staff; • contract monitoring is performed and documented in accordance with HHSD policies, procedures, and best practices; • review of organizational structure, job duties, and personnel within the contract monitoring function, in order to determine whether changes are needed to ensure objectivity and independence in performing contract monitoring roles and responsibilities; and, • a formal, documented training program specific to training needs that is provided to staff.	**Concur.** HHSD has completed an analysis of its organizational structure resulting in the creation of a new Contract Compliance Unit (CCU) under the Chief Administrative Officer effective November 7th. This structure will enable an independent and objective monitoring function, separate from programmatic staff responsible for daily contract management. CCU will be responsible for leading the project to develop department-wide contract monitoring policies and procedures for executive approval. Upon adoption of approved policies and procedures, CCU will oversee department implementation, staff training and compliance with the policies and procedures.	Underway	Oct 1, 2012

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
2. The HHSD Director should consider consulting with Communication and Technology Management and should ensure that parameters regarding management system access, security, and data reliability comply with industry best practice.	**Concur.** A) HHSD has consulted with Communication and Technology Management (CTM) and implemented increased security access controls for CTK effective November 1, 2011. B) HHSD will review data reliability controls within both CTK and department procedures to identify opportunities to improve the accuracy and completeness of information within the database.	A) Completed B) Planned	A) Nov 1, 2011 B) Apr 1, 2012

Social services contracts for which site visits were conducted

Contractor	Contract	3-year Amount
AISD - Interlocal	After School Enrichment Program	$2,065,054
Austin Academy	Workplace Competency Program	$539,567
Austin Area Urban League, Inc.	Workforce Training and Career Development	$657,555
Austin Tenants Council	Telephone Counseling and Mediation Program	$118,211
Council on At - Risk Youth (CARY)	Youth Violence Prevention Program	$493,300
Front Steps	Austin Resource Center for the Homeless	$5,770,938
Leadership Enrichment Arts Program (LEAP)	LEAP Into the Arts	$95,324
Salvation Army	Austin Shelter for Women & Children	$4,998,003
Workforce Solutions	Quality Child Care Collaborative	$1,457,453