CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

October 25, 2013

Julián Castro
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Councilman, District 10

SUBJECT: Audit Report of Department of Human Services Delegate Agency Contract Monitoring

Mayor and Council Members:

We are pleased to send you the final report of the Department of Human Services Delegate Agency Contract Monitoring Audit. This audit began in March 2013 and concluded with an exit meeting with department management in September 2013. Management's verbatim response is included in Appendix B of the report. The Department of Human Services management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

Distribution:
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Melody Woosley, Interim Director, Department of Human Services
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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Department of Human Services

Delegate Agency Contract Monitoring

Project No. AU13-009

October 25, 2013

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Department of Human Services (DHS) delegate agency contract monitoring process. The audit objectives, conclusions, and recommendations follow:

Are processes in place to ensure effective monitoring of delegate agency contracts?

DHS has developed a framework for contract monitoring that allows for a risk based approach to monitoring delegate agency contracts. Additionally, the process includes scheduled monthly, quarterly, and annual monitoring efforts to verify that key contract requirements are met.

However, monitoring processes are not applied consistently and do not include procedures for verifying key financial components outlined in the contract. Additionally, documentation and management oversight of monitoring efforts are not adequate to ensure effective monitoring of delegate agency contracts.

We recommend that the Director of DHS:

- Develop uniform standards for assessing compliance with contract requirements and ensure that monitors are trained to apply standards consistently.

- Ensure that monitors retain sufficient documentation of work performed, so that conclusions regarding agency compliance are properly supported and update DHS's Monitoring Protocol to include minimum requirements and guidance for documenting work performed.

- Implement processes to verify that contract requirements pertaining to financial stability, program income, administrative costs, and suspended/debarred principals are met.

- Ensure that oversight is adequate to provide assurance that monitoring processes are performed in accordance with contract requirements and/or Departmental policies and procedures.

DHS Management's verbatim responses are included in Appendix B.

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Background

The Department of Human Services (DHS) develops, coordinates and invests in comprehensive human services strategies that promote the health, welfare, and safety of the community. These strategies focus on raising workforce education and skill level and promoting family economic success. DHS also serves as a steward of public and private funds, service provider, funder, and facilitator of strategic broad-based and multi-sector partnerships.

DHS is responsible for approximately 67 delegate agency contracts that govern more than 100 human service related programs in San Antonio. In fiscal year 2013, these contracts totaled approximately $22.5 million distributed to delegate agencies from the City's general fund and federal funding sources.

Agencies submit program objectives and performance measures for each COSA funded program during the award process. In order to receive funding, a delegate agency's program objectives must tie to one or more community goals outlined in the SA2020 Community Vision Report. DHS reviews and approves these measures during the award process and uses them to assess agency performance.

In fiscal year 2013 DHS implemented a new, centralized monitoring process with the goal of strengthening the department's mission to improve accountability over invested resources. DHS's Contract Monitoring (CMD) and Fiscal Divisions share responsibility for monitoring delegate agency contracts.

Under this new process, CMD and Fiscal work together to schedule onsite monitoring visits, based on the risk rating for each agency. High risk agencies are scheduled for quarterly visits, while low risk agencies are scheduled for annual visits. CMD is responsible for ensuring administrative compliance with contract requirements, monitoring agency performance, and is the first level of review for agency expenditures. Agencies report monthly performance results on the Contract Monitoring Report (CMR). Additionally, CMD conducts on-site reviews to validate performance results and to verify compliance with administrative and operational contract requirements. Results of theses reviews are documented on the Program Performance Review (PPR) Checklist and Contract Compliance Checklist (CCC).

The Fiscal Division is responsible for monitoring agency budgets and expenditures and for ensuring compliance with fiscal requirements outlined in the contract. Agencies submit expenses on a monthly invoice for reimbursement by the City. After invoices are reviewed by CMD, Fiscal monitors also verify that expenses are within budget and allowable under the contract prior to approving payment. Additionally, Fiscal conducts on-site reviews to confirm that agencies comply with fiscal requirements in the contracts. Results of on-site reviews are documented on the Fiscal Checklist.

Audit Scope and Methodology

The audit scope included all delegate agency monitoring efforts for the 1st and 2nd quarters of FY2013.

We interviewed CMD and Fiscal monitoring staff and management and observed monitors as they conducted on-site reviews. We evaluated DHS's contract monitoring tools to determine whether they were sufficient for monitoring key contract requirements. We reviewed DHS's risk assessment to determine whether risk ratings were appropriate. We also reconciled agencies listed on the contract monitoring schedule to those in the FY2013 budget to determine whether all agencies had site visits scheduled in accordance with DHS's Monitoring Protocol. We judgmentally selected 6 of 67 delegate agency contracts for testing based on the agency risk, type of program, and type of funding. We reviewed DHS monitoring files for these agencies, including contract administration plans, completed CMRs, PPRs, CCCs, fiscal and grant specific checklists, to determine whether contract monitoring efforts were performed timely, included proper support documentation, and were followed up on when compliance issues were noted.

We also reviewed agency budgets and expenditures to determine whether agency expenses were reimbursed timely, accurately, and in compliance with contract requirements. We reviewed agency insurance documentation, cost allocation plans, discretionary disclosure statements, matching confirmations, and inventory lists to determine whether related contract requirements were met. Finally, we reviewed federal grant reporting documents to determine whether measures for grant funded agencies were accurate. Testing criteria included DHS's Contract Administration and Monitoring Protocol for Delegate Agencies and Contractors, Delegate Agency Contracts, and COSA Purchasing Guidelines.

We relied on the City's SAP system to validate delegate agency contracts and payments. Our reliance was based on performing direct tests on the data rather than evaluating the general and application controls of the systems. We do not believe that the absence of testing of general and application controls had an effect on the results of our audit.

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 Results and Recommendations

A. Consistency of monitoring efforts

While monitoring processes are defined, DHS's application of monitoring processes is not consistent. For example, during the 6 onsite fiscal reviews tested, fiscal monitors validated a range of 4% to 65% of agency year to date expenditures. Additionally, CMD monitors were inconsistent in their evaluation of agency insurance coverage. Sufficient proof of insurance was not retained in the contract monitoring files for 4 of 5 agencies[1].

These variations occurred because DHS's contract monitoring process does not include uniform standards for evaluating agency records to assess compliance with contract requirements. The process includes guidelines, but allows monitors to use individual discretion in deciding the extent to which records will be reviewed. Additionally, to verify proper insurance coverage monitors rely on Risk Management to inform them when insurance documentation is not adequate. However, Risk Management relies on contract monitors to inform them which types of coverage are required by the contract.

Without uniform standards for assessing compliance with delegate agency contracts, the City cannot ensure that monitoring efforts are performed consistently and appropriately across delegate agency programs. Additionally, without uniform standards for evaluating insurance documentation monitors cannot effectively ensure that the City's liability interests are adequately protected.

Recommendation

The Director of DHS should develop uniform standards for assessing compliance with contract requirements. The Director should also ensure that monitors are trained to apply standards consistently.

B. Documentation of monitoring efforts

Monitors do not retain sufficient documentation to support their conclusions. For example, some Fiscal monitors did not document which invoices were validated or what time frame they reviewed. They also did not document how compliance with segregation of duties was verified.

[1] We excluded one agency from our test of detailed insurance requirements because the agency is self insured under Bexar County.

Additionally, CMD monitors did not document the criteria used to verify client eligibility or which CMR performance results (i.e., what month and which measures) were validated back to agency source documentation. They also did not document which items on agency inventories of COSA funded equipment were physically verified, or when, to confirm that agencies are safeguarding equipment in compliance with contract requirements. Finally, CMD monitors did not document how they confirmed agency compliance with contract requirements pertaining to agency policies regarding prohibited activities, purchasing and procurement.

The City's Purchasing and Procurement Manual requires all contract monitoring efforts to be documented in the contract monitoring file. DHS's use of checklists to document results of the reviews should be supported by documentation that can be used to assess the nature work performed and the scope of the review. Additionally, adequate documentation of work performed provides a sound basis for monitor conclusions and assurance that contracts are monitored effectively.

Recommendation

The Director of DHS should ensure that monitors retain sufficient documentation of work performed, so that conclusions regarding agency compliance are properly supported. Additionally, the Director should update DHS's Monitoring Protocol to include minimum requirements and guidance for documenting work performed.

C. Key financial components not reviewed

DHS's monitoring process is not sufficient to confirm compliance with key financial requirements outlined in the contract. It does not include procedures for verifying compliance with contractual obligations related to financial stability, program income, administrative costs, and suspended/debarred agency principals.

For example, the process does not include a formalized review of agency financial statements to determine whether agencies are financially stable. Delegate agency contracts require that agencies maintain financial stability and operate in a fiscally responsible and prudent manner.

Additionally, the process does not include steps to verify that participation fees and other income collected as a result of program activities are properly reported. Agencies are required to fully disclose and be accountable to the City for all program income; however monitors do not validate this information.

Also, the process does not require monitors to confirm that agency administrative costs do not exceed limits outlined in the contracts. The contract limits agency

administrative overhead costs to 20% of the COSA funding provided by the contract. Currently, agencies self-report the percentage of administrative costs; however, monitors do not validate this figure.

Finally, monitors do not verify that agency principals have not been suspended or debarred from participation in any State or Federal programs. The contract requires the agency to certify that neither it, nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in any State or Federal program. Currently, monitors are required to search the federal System for Award Management (SAM) database to identify agencies that have been suspended or debarred; however, the names of agency principals are not included in this search.

Without sufficient monitoring processes to ensure that contract requirements are met, the likelihood that public services are interrupted or not rendered as intended is increased. Additionally, the City may experience loss of funds due to waste, misappropriation, or theft.

Recommendation

The Director of DHS should implement processes to verify that contract requirements pertaining to financial stability, program income, administrative costs, and suspended/debarred principals are met.

D. Oversight of monitoring processes

Management oversight was not adequate to ensure that contract monitoring efforts are performed in accordance with contract requirements and/or departmental policies and procedures.

For example, revenue and expenditure matching verifications were not performed in accordance with contract requirements. The Fiscal Division monitors revenue and expenditure matching through a confirmation letter process that requests an agency summary of matching revenues and expenditures along with supporting documentation. However, as of March 2013, confirmation letters for FY2013 had not been sent. According to the contract, the City should verify revenue matches prior to any payments under the contract. Expenditure matches should be verified by December 31st and quarterly thereafter.

Additionally, fiscal checklists and monthly CMRs were not reviewed timely by supervisors. Fiscal checklists should be finalized within 10 business days from the completion of the review with the agency. However, fiscal checklists (5 of 6) were approved 1 to 3 months after the onsite review was performed. Additionally, monthly CMRs should be approved within a timeframe that allows for corrective

actions to be implemented prior to the next reporting period. However, 24% (8 of 34) of CMRs were approved from 2 to 7 months after the monitor reviewed them.

Without proper oversight, DHS cannot provide assurance that revenue and expenditure matching requirements have been met, leaving the City at risk of becoming an agency's sole funding source. Additionally, timely supervisory review and approval of monitoring reports increases the overall effectiveness of monitoring efforts.

Recommendation

The Director of DHS should ensure that oversight is adequate to provide assurance that monitoring processes are performed in accordance with contract requirements and/or Departmental policies and procedures.

Appendix A – Staff Acknowledgement

Buddy Vargas, MBA, CFE, Audit Manager
Cynthia Hicks, CIA, CFE, Auditor in Charge
Maria Cristina Hernandez, Auditor
Christina Liguori, Auditor
Abigail Medina, Audit Intern

Appendix B – Management Response

CITY OF SAN ANTONIO
SAN ANTONIO TEXAS 78283-3966

October 8, 2013

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of the Department of Human Services (DHS)-Delegate Agency Contract Monitoring

DHS has reviewed the audit report and has developed the Corrective Action Plans below to address report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	**Consistency of Monitoring Efforts** The Director of DHS should develop uniform standards for assessing compliance with contract requirements. The Director should also ensure that monitors are trained to apply standards consistently.	p. 3	Accept	Kimberly Griffith (Contract Administrator, DHS)/Ed Gil-Najarro (Department Fiscal Administrator, Finance)	November 15, 2013

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: In FY 2012, the DHS delegate agency contract management and compliance monitoring was centralized, creating a Contract Administration Division to ensure effective and consistent contract management. Prior to this, contract management and monitoring was assigned to program staff in the Department's operational divisions without centralized supervision of contract processes and procedures. For FY 2013, DHS updated its monitoring policy and implemented new processes for program and fiscal monitoring. Major improvements included multiple levels of monitoring based on risk assessment; coordinated fiscal; compliance and performance monitoring reviews; and consistent tracking and follow-up on corrective action. To ensure consistent and effective monitoring, by October 30, 2013, DHS will revise the *Contract Administration and Monitoring Protocol for Delegate Agencies (Monitoring Protocol)* to provide more detail and definition regarding contract compliance and monitoring requirements. Fiscal, contract and program compliance monitoring tools will be updated to provide expanded instructions and review requirements. Contract Administration and Fiscal staff will be trained on the new policy and procedures by November 15, 2013 and ongoing training will be provided to staff as needed to ensure effective assessment of program performance and fiscal stability. The current *Monitoring Protocol* establishes standards for maintaining inventory and insurance documents in the *Contract Monitoring File*. It states each file must be current and contain, at a minimum, all of the documentation as stated in the policy. Beginning FY 2014, to ensure uniform and proper evaluation of insurance requirements for each contract, Contract Administration monitors will implement an *Insurance Monitoring Checklist* and specifically inform Risk Management of special program components that may require additional, specific insurance. Insurance documents will be submitted and verified by the Contract Administration monitor and Risk Management prior to execution of contracts. DHS will implement a standard process regarding the number of invoices selected and reviewed during the fiscal monitoring of each agency. A designated Fiscal staff person will be responsible for selecting the samples for all fiscal reviews based on the revised standard included in the *Monitoring Protocol*. All deviations from the standard must be noted on the *Fiscal Review Form* under the designated area regarding sample selection and approved by the supervisor. Requests for additional information will be based on observations, findings, or concerns identified in the initial review or by Department Management.				

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Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
2	**Documentation of Monitoring Efforts** The Director of DHS should ensure that monitors retain sufficient documentation of work performed, so that conclusions regarding agency compliance are properly supported. Additionally, the Director should update DHS's Monitoring Protocol to include minimum requirements and guidance for documenting work performed.	p. 4	Accept	Kimberly Griffith (Contract Administrator, DHS)/Ed Gil-Najarro (Department Fiscal Administrator, Finance)	November 15, 2013
	Action plan: By October 30, 2013, DHS will revise the *Monitoring Protocol* and implement improved documenting processes that define required and appropriate documentation and explain source documents used to verify contract fiscal compliance and program performance results. The *Program Performance Monitoring Tool* will be expanded from a checklist to a more comprehensive instrument that requires the Contract Administration monitor to provide detail and complete descriptions of documentation reviewed during monitoring reviews. The *Delegate Agency Contract* requires submission of numerous attachments including financial, Board, and insurance documents. The *Monitoring Protocol* currently establishes the standards for documentation to be maintained in the *Contract Monitoring File*. FY 2014 contracts will not be executed until all required documentation is received and verified. The *Monitoring Protocol* will be updated by October 30, 2013 to define required documentation that supports items tested during the Fiscal review. The *Fiscal Review Form* will be updated to include designated areas for the Fiscal monitor to cite documentation that has been reviewed and verified. Training will be provided to Contract Administration and Fiscal monitoring staff on appropriate documentation to support monitoring conclusions and use of revised monitoring tools by November 15, 2013.				

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Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
3	**Key Financial Components Not Reviewed** The Director of DHS should implement processes to verify that contract requirements pertaining to financial stability, program income, administrative costs, and suspended/debarred principals are met.	p. 5	Accept	Kimberly Griffith (Contract Administrator, DHS)/Ed Gil-Najarro (Department Fiscal Administrator, Finance)	October 30, 2013

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Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: DHS will revise the *Monitoring Protocol* to strengthen procedures for review and analysis of agency financial stability and compliance with contract requirements including administrative costs, matching requirements, and collection of program income. Prior to contract execution, DHS Fiscal monitors will analyze agency IRS Form 990, audited financial statements, and prior year Fiscal monitoring reports including income, expenses and changes in key indicators between fiscal years. Conclusions based on the financial analysis will identify the agency's risk status and monitoring schedule. Development of revised financial monitoring protocol has been coordinated with Finance Department. Contract requirements include submission of a detailed program budget, which identifies the percent of City funds supporting agency administrative expenses. Fiscal Monitors verify that costs match the approved contract budget during the review of monthly invoices for each program. For FY 2014, DHS revised the budget forms to more clearly identify direct and administrative costs by line item. Fiscal monitors will verify the expenses are categorized appropriately and that the administrative rate is not more than 20% of City funding. Fiscal will verify invoice submissions during on-site reviews and discrepancies will be investigated and documented on the *Fiscal Review Form*. Currently, agencies submit annual requests to the DHS Director to collect and retain program income and Fiscal monitors review reported program income during the processing of monthly invoices. To strengthen monitoring and ensure program income is properly reported, each agency will be required to submit an *Intent to Collect Program Income Form* prior to contract execution. The form will also be included in the FY 2015 & FY 2016 Delegate Agency Request for Proposal process and included in evaluation of the agency application and program budget. To identify program income not approved by or reported to DHS, Fiscal monitors will review revenue identified on agency financial statements and interview agency staff. Contract Administration monitors will collect information from program clients regarding payment of participant fees through a *Client Interview Questionnaire*. Current DHS monitoring protocol and the Request for Proposal (RFP) process includes verification that an agency is not debarred or suspended from contracting with a State or Federal agency and documentation is maintained in the contract monitoring file. The Delegate Agency Contract also requires that the agency certify that its principals and subcontractors are not presently debarred or suspended. For FY 2014, DHS will implement a *Certification Regarding Debarment and Suspension Form* requiring each agency to specifically certify that its principals and subcontractors are not debarred or suspended. To ensure all contract submission requirements are met, DHS will implement the *Contract Execution Checklist* for FY 2014, which must be complete prior to the DHS Director signing the contract and processing of invoices. Training will be provided to Fiscal and Contract Administration staff regarding methods for analysis of financial requirements, program income, and administrative costs by October 30, 2013.				

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Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
4	**Oversight of Monitoring Processes** The Director of DHS should ensure that oversight is adequate to provide assurance that monitoring processes are performed in accordance with contract requirements and/or Departmental policies and procedures.	p. 6	Accept	Kimberly Griffith (Contract Administrator, DHS)/Ed Gil-Najarro (Department Fiscal Administrator, Finance)	October 30, 2013
	Action plan: DHS is revising the *Monitoring Protocol* to provide additional detail on policies and timelines for submission and supervisor review of program and fiscal monitoring reports. Fiscal and CMD monitoring forms and reports are being updated to include required submission and supervisor review deadlines. Additionally, Fiscal and Contract Administration *Employee Performance and Development Plans (EPDPs)* will include specific objectives for thorough and timely completion of *Monitoring Protocol* requirements and associated reports by monitors and supervisors. When submission of reports is delayed by agency non-compliance, the monitor will notify the supervisor and document corrective action protocol. The Delegate Agency Contract requires each agency to identify non-COSA match funding. For FY 2014, DHS will implement submission and review of the *Non-COSA Match Funding Verification Form* and supporting documentation prior to contract execution and payment of invoices. Agencies without verification of all required match on October 1, 2013 will be placed on high-risk status and invoices will only be paid up to the amount of match verified. By October 30, 2013, additional training will be provided to staff on *Monitoring Protocol* timelines and the importance of timely review and approval by the supervisor. The *Contract Status Report* provided to the DHS Director will be updated to include additional detail on Contract Administration and Fiscal compliance with deadlines.				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Melody Woosley — October 8, 2013
Melody Woosley
Interim Director
Department of Human Services
Date

Gloria Hurtado — 10/8/2013
Gloria Hurtado
Assistant City Manager
City Manager's Office
Date

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