

## RESPONSE TO 2004-2005 GRAND JURY FINAL REPORT

**For: Countywide Service Agency/Board of Supervisors**

**By: Sacramento County Departments of Human Assistance and Health and Human Services**

**Galt Concilio Contract(pp. 17-29)**

### **Findings:**

Finding #1 Neither DHHS nor DHA has an effective system for oversight of their many contracts with the Concilio and did not have a system to determine if the Concilio was properly managed and capable of meeting the requirements of the contracts. The County generally lacks an oversight system for the approximately 400 contracts, which total \$263 million annually, that it has with non-profit providers of social, mental health, and alcohol and drug treatment services. If the financial problems occur at other nonprofit service providers, it is likely that they would not be detected and addressed before services suffered.

### **Response to Finding #1: Do Not Concur**

There is effective oversight of the many contracts that are overseen on behalf of the County by the Departments of Human Assistance and Health and Human Services. There are a multitude of contracts that are entered into every year by these two departments to provide social, mental health and alcohol and drug treatment to this community. This report cites problems encountered with one service provider and generalizes that as indicative of problems with an entire system of contract oversight and monitoring. The following responses are indicative of how serious these two departments have taken the issues that occurred with the Galt Concilio contract and the systems that are in place or will be enacted in order to ensure that this anomaly does not occur again.

Recommendation #1 **A.** The County should establish clearly defined procedures to ensure that the financial operations and program performance obligations are met by all nonprofit and community-based service providers that have substantial service contracts with the County. **B.** As part of this procedure, clear responsibilities need to be established for contract management and coordination of multiple contracts. In the case where a single non-profit service provider is providing multiple services under multiple contracts, a single lead county official should be identified as responsible for overall evaluation of performance and assurance that performance problems are addressed. **C.** Performance goals and objectives should be developed, measured, documented and reported.

**Response 1.A.: Concur**

The Department of Human Assistance (DHA) has clearly defined procedures, which have now been formalized and documented, for the review of audited financial statements for those non-profits and community-based service providers that are required to submit an audit to DHA. The providers who receive federal funds in excess of \$100,000 are required to submit an annual audit. We have developed a checklist of items to be completed by the DHA staff accountant reviewing the audit that would indicate that an organization is having financial difficulties or is in non-compliance with program and or financial requirements. DHA has developed a contract database that provides a report of all those organizations that are required to submit an audit and is developing a process to ensure that all required audits are received. The Department of Health and Human Services (DHHS) is developing and adopting a similar procedure for the tracking of the receipt and review of financial statements, using the DHA checklist. A database will be utilized so that late or missing reports can be quickly identified. DHHS and DHA contracts require financial statements from contractors receiving any amount of Federal funds. Consistent with OMB Circular A-133, contractors receiving more than \$500,000 from all sources of Federal funds must provide an audited financial statement, while contractors receiving less than \$500,000 from all sources may supply financial statements that have been reviewed by an independent accountant.

In the DHHS Division of Mental Health, Child and Family Services, the majority of mental health services are provided through contracts with community based agencies and organizations. The mental health services and treatment these agencies provide are predominantly funded by a federal Medicaid entitlement called **Early Prevention and, Screening, Diagnostic and Treatment (EPSDT)** which is a fee for service program. The Department of Mental Health, State of California and the Federal Health Care Financing Agency/Consolidated Medicaid Services (CMS) oversee and audit local EPSDT funded mental health programs. The partnership within the Division of Mental Health between the Quality Management Unit, the Child and Family Contract Development and Support Unit and DHHS Office of the Director Contracts and Fiscal Service Units is critical to the overall management of this entitlement and the local contract agencies. Regular meetings between these units are held and daily work interactions are necessary between and among the staff of these Units to ensure that the contracted organizational providers receive a systemic approach to contract development and oversight. The Mental Health Child and Family Contract Unit have five Mental Health Program Coordinators who serve as the primary points of contact for the EPSDT mental health contractors. The role, performance expectations and accountability standards of the Program Coordinator position is currently being reviewed and redefined. This finding calls for a more systemic approach to contract management and that has become an integral part of the Program Coordinator position redefinition process.

**Response 1. B.: Concur in principle**

DHA and DHHS believe there is value to centralizing the fiscal monitoring to insure that individual county departments are charged appropriately and there is no duplicative charging of expenditures. The Departments however believe that this could be accomplished by establishing a standard set of procedures to be followed by each department rather than by centralizing the financial review function. Programmatically DHA and DHHS do not believe that a centralized approach would be effective. Each Department within the Agency operates under different vision, mission and values and has different service outcomes sometimes dictated by the funding source. Even though each Agency Department is different in purpose, they each work with community service providers to develop services that meet the needs of County residents. The individual Departments are responsible for their own budgets and the service performance standards they have established to meet their identified service outcomes. Each Department has at least one and sometimes multiple "contract monitors" to work with the contractor to meet contractual performance standards. Centralizing programmatic monitoring would decrease the oversight and dilute the County's ability to monitor contracted services to identify one contract monitor for multi-Department contracts with the same service provider. The current redefinition of the Mental Health Children's and Families Program Coordinator position and responsibilities will take into account their cross-systems relationships on both an intra and inter-organizational level. Monitoring practice standards and operating procedures will be created to define specific programmatic and fiscal duties already being conducted. In addition, management will identify other needed intra and inter-departmental duties and responsibilities to verify the financial and fiscal capability and program viability of potential mental health contractors and develop a management and program self-assessment tool to be completed by new and continuing providers. Site visits, conducted by a team, shall be reinstated as staff resources permit.

**Response I.C.: Concur**

The County has established both procedures for financial operation and standards for program performance in each executed contract. Each contract is reviewed to ensure that it is in compliance with these standards. The County provides both oversight and support by working with contractors during the negotiation stage to provide the requirements and expectations of the County contract process. DHA contract monitors currently require an outcome report with each claim for payment. DHHS Division of Mental Health, Child and Family Contract Unit Program Coordinators review the monthly productivity and reimbursement rates reported and claimed by each contract provider and then meet with them to review their contract compliance. Contract providers are required to submit quarterly program reports. The content and format of these reports is currently being reviewed and will be revised to better reflect compliance with contract scope language and ascertain an agency's overall ability to fulfill the terms of its contract. The Child and Family Mental Health Contract Unit Program Coordinators also require providers to submit a mid-year cost report. Program staff uses this information to make financial and program productivity projections for the second half of the fiscal year. The mid-year cost report also serves as a valuable tool in contract development for the following fiscal year. In addition, the State of California, Department of Mental Health, requires all mental health services to report on client related outcomes including client satisfaction with the

services provided. This data is collected and reported twice in any given fiscal year. Contract analysts or program contract monitors in both DHA & DHHS review both fiscal and program backup data for conformity with contract performance measures.

**Finding #2** When DHHS became aware that the Concilio was not providing the level of services called for in the contracts, it was slow to remedy the situation. When it became clear that the Concilio was in a financially untenable situation and could not provide the services called for in its contracts, DHHS proposed, and the County Board of Supervisors approved, a questionable bailout. The County modified the method of payment and essentially forgave the Concilio of the obligation to provide the services called for in the DHHS contracts. This allowed the Concilio to receive a \$246,000 payment for expenses it incurred in its unsuccessful attempt to provide services called for in its contract.

**Recommendation #2** The County should assure that contract provisions, such as audit requirements, that are essential to ensuring legal and proper use of contract monies are implemented and enforced. In addition, the County should implement requirements for the County's grant/contract monitors to ensure the grantee/contractor has engaged an auditor at least 30 days prior to the end of the fiscal year.

**Response 2: Concur.**

The County should assure that contract provisions are enforced. County contract staff should initiate a process whereby contractors, who are required to submit an audit, report their auditor's name and engagement date by April 30 of each fiscal year. DHA has developed a database that provides a report of each contract that requires an annual audit. DHA is currently developing a process that will ensure compliance with the audit requirement. DHHS contracts do not require contractors to report concerning the engagement of an auditor. DHHS will implement a procedure to send auditor engagement "reminder letters" in April of each year to all contractors who are required to provide audited or reviewed financial statements. The contract language requiring the independent accountant's review or audit will be referenced, including the due date of the financial statements.

**Finding #3** DHA and DHHS did not ensure annual audits were completed in a timely manner. These agencies did not inquire about the status of the FY 2001-2002 audit until February 2003, seven months after the end of the fiscal year. The FY 2001-2002 audit (along with the FY 2002-2003 audit) was not completed until March 2004. The delay further compromised the ability of these departments to detect the severe financial problems at the Concilio.

**Recommendation #3** Once, criteria for payment under a contract is established (such as a fee for documented service to individual clients), DHA will not modify its approach and utilize a different method of payment (such as reimbursement for expenses incurred) for any payments made for past performance.

**Response 3: Concur**

Once a contract is established, the County should only amend the fiscal provisions for payments for future performance of community-based organizations.