



# Orange County Department of Social Services Contract Monitoring and Payments

## Report of Examination

Period Covered:

January 1, 2012 — October 7, 2013

2014M-80



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

June 2014

Dear County Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and county governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of Orange County, entitled Contract Monitoring and Payments. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

Orange County (County) serves approximately 374,500 residents within an 812-square mile area and is governed by a 21-member Board of Legislators (Board). The elected County Executive is the County's chief executive officer and is responsible for oversight of County operations. The County provides a wide range of services to its residents, including public safety, employment assistance, health care, maintenance of County roads and parks, and temporary assistance to individuals and families. The Board adopted budgets of approximately \$712 million and \$756 million for the 2012 and 2013 fiscal years, respectively.

The Department of Social Services (Department) is a County department which is responsible for providing temporary help to eligible individuals and families with social service and financial needs to assist them with leading safe, healthy and independent lives. An appointed Commissioner oversees the day-to-day management of the Department. The Department's adopted budgets for the 2012 and 2013 fiscal years were approximately \$228 and \$236 million, respectively.

## Objective

The objective of our audit was to examine internal controls over service provider agreements. Our audit addressed the following related question:

- Did Department officials monitor community based agencies to ensure that services provided and payments made were in accordance with contractual agreements?

## Scope and Methodology

We examined the County's controls over contractual agreements for the period January 1, 2012 through October 7, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix C of this report.

## Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with County officials and their comments, which appear in Appendix A, have been considered in preparing this report. County officials disagreed with some of the findings in our report. Our comments on issues County officials raised as a part of their response are included in Appendix B.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the County Clerk's office.

## Contract Monitoring and Payments

The Department provides and manages a wide range of social welfare programs. To accomplish its mission, the Department enters into agreements with community based agencies to provide services that enhance the ability of families to live together, enable individuals to remain in their homes, minimize the risk of abuse or neglect and provide for specialized care in residential settings when necessary. Department management must monitor contractual agreements to ensure that all services are provided in accordance with the agreement and invoices for payment are properly supported and contain sufficient documentation. In addition, the Director of Accounts is responsible for auditing all invoices prior to payment.

Some County service providers are not providing services in accordance with agreements; therefore, the Department may be paying for services not received. Although service providers submit reports that indicate how they met their performance measures, Department officials do not verify the information. As a result, the County may have overpaid providers by \$562,864.<sup>1</sup> Further, although the majority of payments reviewed were correct, the Department needs to improve its review of contractual invoices and monitoring of services provided. We reviewed 227 invoices with payments totaling \$8.1 million and found discrepancies with 58 invoices (26 percent) with payments totaling \$2.2 million (28 percent). Because the Department relies on supporting documentation for reimbursement for various funding, there is an increased risk that the Department may not be collecting all reimbursements to which it is entitled.

### Contract Monitoring

Monitoring is essential to ensure that services are provided in accordance with contractual agreements. Employees responsible for monitoring should be familiar with and have copies of the contract they are monitoring. Service providers should be held to requirements set forth in the contract, such as providing agreed-upon reports to ensure that the Department can adequately evaluate the services being provided. Additionally, information provided by service providers should be verified by Department personnel responsible for oversight.

When contracting for services, the Department sends out a request for proposals (RFP). In response, interested providers submit a technical proposal which states how they will provide the services

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<sup>1</sup> This figure represents 5 percent of the total contract costs evaluated that the County is permitted to withhold if all the required performance measures are not met.

being contracted for and meet the RFP's requirements. These two documents, together with the formal generic contract, set forth the terms and conditions of the agreement.

The Department is required by law to use performance based contracts for service providers accessing particular funding streams. Service providers under contract with the Department select five performance measures. Each performance measure has a value of 1 percent of the contract value, for a total of 5 percent. The Department can reduce payments on the contract by 1 percent for each performance measure not met. The program monitoring portion has become part of the Department's annual review process. Further, service providers are required to submit an annual report detailing and validating their achievement or lack of achievement for each performance measure. The annual report must be submitted with the final claim for reimbursement and must be verified as accurate by the Department monitor prior to the contract's final monthly payment being made.

To determine if the Department is properly monitoring its contracts with service providers, we selected seven service providers<sup>2</sup> with 10 contracts totaling \$11.2 million from a population of 10 providers who had contracts totaling \$17.1 million during the audit period. Four contracts required the service provider to submit annual reports, while the remaining six had both annual and quarterly reporting requirements. Service providers submitted annual reports for all 10 contracts. However, during our audit period, service providers for six contracts should have submitted 42 quarterly reports but submitted only 24 reports (57 percent). The Fiscal Director stated that the program monitors do not believe that the 18 reports not submitted were required because the RFP states that the Department *may* require quarterly reports. However, the technical proposals submitted by these service providers state that they *will* provide the Department with quarterly reports.

We also found that six of the eight contract monitors and two of the four supervisors do not have copies of the contracts that they are responsible for monitoring. Without these contracts, they do not have clear guidelines on the performance measures they should be ensuring that service providers meet. Further, the monitoring process is inconsistent; each monitor has a different process. In addition, all of the monitors indicated that they review the performance reports but do not verify the information provided by the contractor. In general, the monitors believed that their day-to-day contact with the service providers permitted them to make a judgment on whether the performance measures were being met. However, without verification

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<sup>2</sup> See Appendix C for information on the sample selection.

of performance measures, there is a risk that the County overpaid providers by as much as \$562,864.<sup>3</sup>

Due to the differences among the contracts being evaluated and the way they are monitored, we evaluated the contract aspects that were similar. For example, each contract requires the monitor to meet with the service provider monthly and also requires providers to meet face-to-face with the individual receiving services either monthly, weekly or daily. Ultimately, regular meetings between the service provider and individuals receiving services help to ensure that families are making progress in meeting their children's needs so that the children can remain in their homes. Monthly meetings between the monitor and service provider help to ensure that contracted services are being provided so that this goal can be achieved. We found that, for one contract with payments totaling \$115,181, the monitor was unable to provide evidence that monthly meetings had occurred. The monitor provided the monthly client list submitted by the service provider, but was unable to provide specific information regarding the cases selected, such as the dates the provider met with the individuals receiving services.

We reviewed two cases for each of the remaining nine contracts from April through September 2012.<sup>4</sup> A total of 69 monthly meetings should have occurred but only 19 meetings were documented. There was no evidence that the remaining 50 (72 percent) were held. As a result, the Department has no evidence that proper monitoring is occurring.

We also reviewed case notes in the system and other supporting documentation for the same cases to determine if service providers were meeting face-to-face with the individuals receiving services as required. None of the service providers were meeting all contract requirements. For example:

- Seven of the nine contracts with payments totaling \$6,132,826<sup>5</sup> required that the service provider meet twice per month with the individuals receiving services. For these 14 cases, there were 50 months in which those requirements should have been met. Of these months, the requirement was fully met 30 times, while the remaining 20 (40 percent) were not. In those cases where the requirement was not met, we found that other contacts were made or attempted for 17 cases (85 percent).

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<sup>3</sup> See footnote 1

<sup>4</sup> Some of the cases did not span the entire six-month period, so we reviewed the cases for only the time open during the selected testing period. See Appendix C for information on the sample selection.

<sup>5</sup> Payments made during the audit period

- One of the nine contracts with payments totaling \$822,878 required that the service provider meet twice per week with the individuals receiving services. For the two cases in this contract that required semiweekly meetings, there were 48 weeks in which the service provider should have met semiweekly with the individuals receiving services. The provider met the requirement for 25 weeks, while requirements were not met for the remaining 23 weeks (48 percent). In those cases where the requirement was not met, other contacts were made or attempted in 10 weeks (43 percent).
- One of the nine contracts with payments totaling \$1,036,636 required that the service provider meet daily with the individual receiving services. For the two cases that had this requirement there were 105 days in which those requirements should have been met. The requirement was only met for 24 days (23 percent).

One monitor informed us that, in most cases, the services provided are voluntary. Individuals receiving services are not required to accept them; therefore, the monitor believes that there are many instances where the provider cannot contact the individual. The Department has protocols which state that the provider will discuss such instances with the monitor and, if an individual continued to not meet, the provider and monitor would remain in contact until a decision could be made regarding case disposition. The monitors indicated that this is normal. However the contracts set forth clear expectations regarding meeting requirements and do not provide allowances for when contact cannot be made. Therefore, based on our review, services are not being provided as agreed. As a result, the Department may be paying for services not received. Department officials were aware that documentation requested was not provided but maintained that regular monthly meetings between the Department and the service providers were occurring.

## **Invoice Processing**

Auditing invoices should be a thorough and deliberate examination to determine that the invoice is a legal obligation and proper charge against the County. Further, the original invoice submitted by the service provider should agree with contractual terms. The various required supporting documentation also should agree with amounts charged on the invoices.

The Department has developed standardized forms to be used for submission in response to RFPs and to invoice for services provided under a contract once the service provider is selected. When a provider responds to an RFP, they are required to provide the proposed annual budget which represents the amount of the contract and how the

expenditures are broken down. Once the proposal is accepted and a contract signed, the annual budget is the basis for monthly invoices submitted to the Department by the provider. Most invoices include client-specific forms that list the individuals receiving services and the associated costs. A monitor reviews an invoice to determine whether the individuals listed are actually receiving services. The monitor then forwards the invoice to the Department's accounts payable clerk who reviews it for accuracy and ensures that payment does not exceed the contract amount. The accounts payable clerk enters the payment requested into the system and forwards a hard copy of the invoice to the Director of Accounts, who is responsible for audit prior to payment.

To determine the accuracy of invoices and associated payments, we reviewed 227 invoices totaling \$8.1 million related to the same 10 contracts from the seven service providers discussed above. Although the majority of payments reviewed were correct, the Department needs to improve its review of contractual invoices. We found discrepancies with 58 invoices totaling \$2.2 million.

- For 10 invoices totaling \$309,255 that were related to four contracts, the monthly claim form did not match the client-specific information. The amount per the client-specific forms was \$278,727, a variance of \$30,528. Because the Department uses the client-specific forms to submit for reimbursement for various funding available, there is a risk that it may not be receiving all reimbursements to which it is entitled.
- Three invoices were overpaid by \$16,650. The Department identified the error and attempted to recoup the overpayments in subsequent invoices and has since recouped \$16,450. The overpayment occurred because the accounts payable clerk entered a different amount to be paid than what was in the support, and the error was not identified during the claims audit process.
- Claims did not always match the invoices. There were 22 invoices paid totaling \$824,074 from three of the seven per diem contracts reviewed. The claims submitted totaled \$753,488, a variance of \$70,586. This occurred because the provider was performing services prior to the official contract being signed, within the timeframe required for submission, but submitting invoices based upon a prior contract rate. Although the claims were not paid until the contract was signed, the provider was not required to resubmit invoices that reflected the new contract rate. Instead, the Department's accounts payable clerk recalculated the amounts due by using

the updated contractual rate without receiving an updated invoice. She did not request or receive an updated invoice; therefore, the documentation did not support the payment made or indicate the reason for the discrepancy. In addition, the Director of Accounts audited and approved the claims based upon the amounts indicated by the accounts payable clerk even though the documentation did not support the amount.

- For 27 invoices related to two contracts, the budgets per the provider's monthly specific forms did not match the contracts. According to the Fiscal Director, the total annual program costs per contract should match the contract. However, the provider made an error in creating the budgets on the forms. If the budget lines or contract amounts shown are incorrect, there is a risk that providers may exceed a given budget line or the total contract amount without detection.

Department officials are aware that contracts are often signed subsequent to services being provided, and invoices are submitted at the time of service and not resubmitted with the proper contractual amount. Further, they stated that variances among the forms are because per diem contracts require multiple forms, some of which are not used for payment. However, when documentation does not support the amount of a claim, or documentation submitted is incorrect, there is a risk that payments may not be made in accordance with the contract. In addition, the Department may not be receiving all reimbursements to which it is entitled.

## Recommendations

Department officials should:

1. Require that service providers submit all reports required by their contract,
2. Implement procedures to verify that service providers are meeting contractual performance measures,
3. Direct the appropriate personnel to ensure that documentation supports payments being made and all parts of the documentation are consistent with one another,
4. Ensure that audited claims are accurate and supported, and
5. Ensure that the providers' monthly claiming forms agree with the contracts and the contracts' annual budgets.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

The local officials' response to this audit can be found on the following pages.



Steven M. Neuhaus  
County Executive

## DEPARTMENT OF SOCIAL SERVICES

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### Orange County Department of Social Services Response to Revised Draft Report: Contract Monitoring and Payments

#### Contract Monitoring and Payments:

The draft audit report indicates concerns that the Orange County Department of Social Services (OCDSS) may not be collecting all reimbursement to which it is entitled and that outcome based contracts' performance measures are not verified. Accounting practices designed to insure the Department claims the maximum reimbursement allowed, as well as monitoring activities and policies implemented to assess program performance, are outlined in response to specific areas of concern.

In the second paragraph, the report indicates, "Because the Department relies on supporting documentation for reimbursement for various funding, there is an increased risk that the Department may not be collecting all reimbursements to which it is entitled." OCDSS Accounting Department has a process in place to identify any possible discrepancy, in which prior to claiming, our internal auditor matches the client specific claiming sheet to the vendors' payments. One of the errors listed in the audit (\$16,650) was found by OCDSS through this internal auditing process and corrective action was taken by our Department (\$16,650 identified in the audit was recouped except \$200, which will be recouped this month) prior to the Comptroller's audit. Additionally, claims are reconciled to a monthly Audit Sheet which is a compilation of our total monthly expenditure. This process provides a second check for possible discrepancies.

The report additionally states that, "Although service providers submit reports that indicate how they met their performance measure, Department officials do not verify the information. As a result, the County may have overpaid providers by \$562,864." First, we would like to point out that contract providers would never be "overpaid" because the five percent they earn in performance incentives is part of their program expenses and not "bonus" or add on funds. If an agency failed to meet some or all of the five performance targets, each worth one percent of their contract budget, they risk receiving between ninety-five and ninety-nine percent of their program expenses. A contract provider in this situation would have potentially provided services worth one hundred percent of their contract budget and received less than that amount based on failing to meet performance measures. The contract not meeting one or more performance targets would potentially *lose funds due to them* for services provided. No contract has been overpaid. In fact, providers not achieving chosen performance measures actually forfeit one to five percent of their expenditures, resulting in an underpayment (by contractual agreement).

See  
Note 1  
Page 18

This system, whereby contract providers are incentivized to earn one-hundred percent of their contract budget (not an additional amount over their budget) provides a financial motivator for providers to perform well and choose attainable performance measures from the menu provided to them, in order to secure funds expended to provide services, as contractually agreed.

The menu of performance targets allows contract providers to select one performance goal from each of five domains. Each provider can select targets, which fit their program and which they believe are attainable. The menu includes targets such as providing training for program staff and maintaining documentation of their training, achieving a high rate of participant satisfaction or participation, or obtaining an annual financial audit. Supporting documents demonstrating achievement of these goals can be produced and reviewed during monitoring meetings or may be presented with an annual report.

Furthermore, \$562,864 represents the entire five percent allowed under all of the audited contracts, to be paid for met performance standards. Unless one assumes that no performance measures were met, the \$562,684 is an overstatement. Additionally, this figure assumes that all the contracts are completely paid out to the contract limits, and several are not.

See  
Note 2  
Page 18

There are several ways in which performance measures are monitored and verified. Monitoring activities include: review of written reports, rosters, case contact sheets, [REDACTED] documentation and reports produced by the contract provider on a weekly, monthly and / or quarterly basis, as well as phone and in-person consultations and / or case / service delivery reviews on a daily, weekly, monthly and / or quarterly basis. Monitoring activities vary based on the type of service provided, intensity of the service, mandated vs. non-mandated services, where delivered (in-home or community vs. office or program location) and other pertinent factors. Contracts are also monitored by different staff / administration levels from Senior Caseworkers and Case Supervisors who directly monitor the provision of services and assist with decisions concerning work with families, to the highest level of administration (program directors, Deputy Commissioner and Commissioner), who meet quarterly with larger programs to review performance, resolve concerns, identify areas of service need or to enhance service delivery on a programmatic level.

Different types of programs require different monitoring strategies. For example, a community program providing recreation activities, work experience, community service opportunities and educational supports on a voluntary basis functions and is monitored differently than a mandated prevention program with court-ordered services, a significant level of risk to participating children, which is working under specific state regulations. Similarly, a small, non-mandated, community based program may be monitored less often and by one or more level of staff, as opposed to an organization delivering several, mandated programs in families' homes, which may receive daily contact from DSS and report to several levels of DSS staff.

Agency contract monitors typically maintain several types of monitoring activity documentation, including:

- calendar notations / meeting schedules
- comprehensive statistical reports from contract providers
- case contact compliance sheets
- signed [REDACTED] ([REDACTED] reports) & progress notes
- monitoring contact notes / notebook
- monthly case summaries

See  
Note 3  
Page 18

- financial claiming case roster and other claim forms

OCDSS contract monitors maintain these types of monitoring documentation for a period of time and then discard / shred the information due to a lack of storage space. All required case documentation is maintained by the contract agency and / or in the Office of Children and Family Services (OCFS) [REDACTED] system for services required to document in that system. Additional documentation of activities such as those conducted during monitoring are not required by regulation and are considered duplicative. The present audit was conducted for the period 1/1/12 – 10/7/13. Therefore much of the monitoring documents for that period had been destroyed.

See  
Note 4  
Page 18

Additionally, OCDSS contract monitors participating in the audit believed there was a strong focus by the auditors on documentation existing in the OCFS [REDACTED] system. When asked by OCDSS administrators for documentation of monitoring activities they routinely maintain, contract monitors readily produced and cited the types of documents listed above. The monitors believe the auditors were not reviewing anything other than documentation in [REDACTED] and therefore did not produce other evidence of their monitoring activities. Much of the evidence external to [REDACTED] includes program level documentation and not case specific documentation, which seemed to lead to further confusion about acceptable proof of documentation.

See  
Note 3  
Page 18

Several of the contract services audited are not required to be documented in the [REDACTED] system at all and may only be mentioned in progress notes as a service provided to the family or in which the family participates. There appears to be some confusion about the absence of documented contacts in [REDACTED] for those services not required to report in [REDACTED]. A portion of the unmet contact requirements for audited contracts may be recorded outside the [REDACTED] system and appear within contract provider maintained documentation. This type of documentation is either provided to contract monitors on a regular basis or is available for review during monitoring meetings, depending on the specific contract. DSS contract monitors believed documented contact information maintained by contract providers outside case records and outside of the [REDACTED] system was not requested or reviewed during the audit.

See  
Note 3  
Page 18

OCDSS has twelve dedicated contract monitoring positions and several monitors who have some portion of their time dedicated to monitoring contracts, in an effort to effectively supervise the services provided by contract programs. Casework responsibilities were removed fully or in part from these positions to allow sufficient focus on monitoring services provided and outcomes achieved by contract providers. Monitors conduct most of their oversight activities at the location of the contract provider and / or program during monthly or regularly scheduled meetings.

Additionally, OCDSS awards contracts through a competitive bidding process and has not hesitated to terminate contracts with providers not delivering services consistent with their contractual agreement or at the level of quality the agency requires of providers. The performance target incentives described above, requiring each contract provider to *earn* five percent of their program expenses, serves as another means of insuring contract providers are delivering services as agreed and performing at an acceptable level of achievement.

Contract program providers are also held to high standard through financial penalties for late paperwork (billing, case documentation and report submission). Payments to contract providers are not only subject to a reduction of one to five percent of their contract budget for failure to meet performance measures, but payments can also be reduced for failure to provide timely submission of

required documentation, thereby OCDSS also holds contract providers responsible to provide required documentation of all types in a timely manner.

See  
Note 5  
Page 18

Performance targets are verified in a number of ways. Program statistics reported on a regular basis are verified during monitoring meetings (monthly for most contracts). As mentioned earlier, financial audits and training records may be included with a report of performance records, viewed at a site visit or obtained during an internal audit process. Monitors and contract staff often attend training together, which can be noted by the monitor. During regular monitoring meetings, numerous forms of contract service activity documentation are reviewed. Through these reviews, monitors note instances of performance achievement or lack of achievement. For example, when children receiving mandated prevention services are placed into foster care, the incident would be included in case progress notes, monthly statistics, case roster and other forms of documentation. A common performance target for those programs involves maintaining a percentage of children served, at home. Placements are a significant event for these programs and are clearly noted in several ways. When the annual report of performance achievement is submitted, the monitor refers to information they have gathered throughout the contract period, through which they can verify performance target achievement.

See  
Note 6  
Page 18

The OCDSS Officer for Program Integrity may also conduct independent audits of contract programs, during which financial and service delivery activities can be reviewed to insure contract compliance.

To insure staff performing each type of monitoring activities are fully aware of contract language, service requirements, performance targets and other important aspects of the contract they are responsible for monitoring, a system for automatically providing a copy of the finalized contract to each monitor was enacted. The Contract Coordinator, upon receiving a finalized contract, will scan and email the contract to all staff involved in the monitoring process for that particular contract. A list of contract monitors will be updated on a regular basis and provided to the Contract Coordinator for this purpose.

### **Case Contacts:**

The programs audited vary regarding contact requirements, including number, type, location and with whom the contact may / must be made. As mentioned above, contacts may be documented in a variety of ways and locations, included in [REDACTED], on case contact sheets, in a provider record, or on a roster of families receiving services. It is not clear that all types of contact recording were located and viewed for all services audited. Again, Monitors believed there was a strong focus on documentation included in the [REDACTED] system, which include contacts for only some of the audited programs.

See  
Note 3  
Page 18

Some services are voluntary and participants in non-mandated services may choose to not attend a meeting, activity or session. Additionally, some services may allow multiple contacts in a week, for example and no contacts another week, as long as a total number of required contacts are met within prescribed time frames. Other programs provide intense contacts initially and then reduce the number and frequency of contacts as the period of service nears an end.

As noted in the section of the draft report concerning meetings with those served by a contract, when required contacts are not met it is typically the result of mandated consumers' resistance to services and / or non-mandated consumers' choice to not attend recommended services. When mandated

families miss required meetings, as noted, other efforts are made to complete contacts. A protocol was provided to the auditors, which requires communication between a monitor and contract provider when a family being served is not located for services.

Language is being prepared, as suggested to include in contracts, allowing for missed contacts when sufficient efforts have been made to make required contacts and despite diligent efforts of the provider, those contacts cannot be made. The omission of such language in current contracts has resulted in the inability of OCDSS to allow for this expected and commonly encountered circumstance for contract providers. In an effort to hold contract providers fully accountable for required contacts with those they serve, the lack of language providing flexibility in contract programs meeting contact requirements has created the appearance of less than adequate performance in this area.

### **Invoice Processing:**

The audit draft report states, "For 10 invoices totaling \$309,255 that were related to four contracts, the monthly claim form did not match the client specific information. The amount per the client specific form was \$278,727, a variance of \$30,528. Because the Department uses the client specific forms to submit for reimbursement for various funding available, there is a risk that it may not be receiving all reimbursements to which it is entitled." For those contracts being paid at a per diem rate, the monthly billing of actual expenses does not necessarily match the client specific billing. The client specific billing totals to the per diem as contracted and as paid. However, the monthly billing shows the expenditures as they actually occurred. Per diem contracts allow the vendor the possibility of up to three to four percent of retained earnings, if they can complete the required activities at a slightly reduced cost. With the idea that the retained earnings can then be reinvested in their various programs going forward. Please understand that the claim form (listing actual expenditures), and the client specific (at the contractual per diem) must both be presented so that the Department can be sure that the vendor's "retained earnings" does not exceed four percent of a contract's total budget. The reason for the differences in the documentation is so that the Department can insure retained earnings do not exceed four percent. The differences in per diem rate methodology contracts is acceptable and expected.

See Note 7 Page 18
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The audit draft report also indicates, "Three invoices were overpaid by \$16,650. The Department attempted to recoup the overpayments in subsequent invoices and has since recouped \$16,450. The overpayment occurred because the accounts payable clerk entered a different amount to be paid than what was in the support, and the error was not identified during the claims audit process." In this instance, the error was identified by our accounting process and prior to the audit the Department collected \$16,450. Subsequently, OCDSS is in the process of recouping the remaining \$200. At this point in the process OCDSS Accounting Department would find any possible discrepancy, as prior to claiming, our internal auditor would match the client specific claiming sheets to the vendors' payments. In the past the correction, although made, may not have been indicated on copies of the form kept with the paid invoices. However, going forward, the corrected copy will not only be kept with the monthly claims for reimbursement, but also with copies of the paid invoices in accounts payable.

The draft audit additionally states, "Claims did not always match the invoices. There were 22 invoices paid totaling \$824,074 from three of the seven per diem contracts reviewed. The claims submitted totaled \$752,488, a variance of \$70,586. This occurred because the provider was performing services prior to the official contract being signed, but submitting invoices based upon a prior contract rate.

Although the claims were not paid until the contract was signed, the provider was not required to resubmit invoices that reflected the new contract rate. Instead, the Department's accounts payable clerk was recalculating the amounts due by using the updated contractual rate without receiving an updated invoice. She did not request or receive an updated invoice; therefore, the documentation did not support the payment made or indicate the reason for the discrepancy. In addition, the Director of Accounts is auditing and approving the claim based upon the amounts indicated by the accounts payable clerk even though the documentation does not support the amount." As described above, when the per diem contracts were being submitted with the old contract rate, the billing was initially made prior to the finalization of the new contract. To complete the billing process and have the invoices in our workers hands within the required time frames (DSS must receive the bills within specific time frames or there could be fiscal ramifications for the vendor), the contractor simply billed at the old rate with the understanding that the bill would later be paid at the corrected rate (once the contract was completed and the new per diem was calculated, the bill could then in fact be paid). The bill would not be paid prior to finalization of the contract process and the newly signed contract overruled the old per diems on the original invoices. Payments were made based on the per diem listed in the new contracts. Additionally, the vendor may have already waited an exceedingly long time to receive their payment and there was concern about not delaying the payment any further. Going forward, should this situation exist, all vendors will be required to resubmit their invoices at the new per diems, prior to OCDSS releasing any funds to the vendor on each contract. Accounting practices have been adjusted to insure an invoice is in hand for the amount for the payment is being made and within the contractual agreements.

Lastly, the draft audit report also states, "For 27 invoices related to two contracts, the budget per the provider monthly specific forms did not match the contract. Per the Fiscal Director, the total annual program costs per contract should match the contract. However, the provider made an error in creating the budget on the forms. If the budget lines or contract amount shown are incorrect, there is a risk that the providers may exceed a given budget line or the total contract amount without detection." OCDSS uses the amount of the actual contract on our individual tracking worksheet and for the creation of our purchase orders for each contract. Therefore, if an amount greater than the contract were entered on our tracking worksheet or into County Financial System, at that point it would be detected that the payment attempting to be paid is in excess of the contract, and the payment would be corrected as necessary.

In response to this concern, OCDSS will not only continue to audit the correctness of the addition of the monthly expenditures being submitted, but will also confirm that the dollar amount of the budgeted contract also matches the contractual total for the contract.

Anne Caldwell

Acting Commissioner  
Orange County Department of Social Services

## APPENDIX B

### OSC COMMENTS ON THE COUNTY'S RESPONSE

#### Note 1

If vendors fail to meet the stated performance measure, they are not entitled to be compensated. Therefore, if the vendors' payments are not reduced for nonperformance, they will be overpaid.

#### Note 2

The amount of \$562,864 represents the total amount potentially at risk for nonperformance.

#### Note 3

OSC auditors requested any and all documentation being retained for monitoring purposes. None of the documents listed in the County's response were available or provided.

#### Note 4

Department officials should consult the County's legal department to determine if they are in compliance with New York State record retention laws.

#### Note 5

Our audit found no evidence that Department officials verified the statistical information provided by vendors.

#### Note 6

The Department was unable to provide documentation that these performance measures were verified. In their response, Department officials stated that the monitors were not retaining the information necessary to verify whether performance measures were met. Therefore, it would not be available for Department personnel to use to verify that all performance measures were met. Further, there is a distinct difference between estimating that a measure has been met based on a monitor's work with a vendor versus obtaining documentation that is verifiable and calculating whether the measure was actually met.

#### Note 7

The 10 invoices Department officials refer to do not pertain to per diem contracts.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the County's Department of Social Services to determine if the Department adequately monitored community-based agencies to ensure that services provided and payments made were in accordance with contractual agreements. To accomplish the objective of this audit and obtain valid audit evidence, we performed procedures that included the following steps:

- We interviewed key officials to determine the process for contracting with community-based agencies and gained an understanding of the components of a typical Department contract, established how service providers invoiced the County for services and determined how those invoices were reviewed and payments made. Further, we obtained an understanding of how the contractual agreements were monitored.
- We obtained the list of contracts which comprised the services for recipients and verified that the list tied to the County's published budget. We narrowed the contracts to those that were preventative in nature, then sorted and selected contracts that exceeded \$500,000. To obtain a sample of 10, we judgmentally selected the remaining three service providers by selecting service providers not already included in our selection.
- We obtained and reviewed the 10 selected contracts to determine the terms of the agreement.
- We obtained and reviewed the invoices for each contract which were within the audit period to determine if payments were made in accordance with the contract and the Department's policies.
- We obtained and reviewed the performance reports submitted to the County by the service providers to evaluate whether contractual requirements are being met.
- We interviewed the program monitors to determine how each is monitoring whether the service providers are performing in compliance with contractual obligations.
- We selected a sample of two cases for each contract and met with the monitors to review the documentation to support that monitoring was occurring. Using a random number generator, we first determined from which invoice period to select and again used a random number generator to select two cases from that invoice.

We conducted this performance audit in accordance with GAGAS. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX D

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