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DEPARTMENT OF AUDITOR-CONTROLLER

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February 23, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo
Auditor-Controller

SUBJECT: **DEPARTMENT OF HEALTH SERVICES – CONTRACT MONITORING OPERATIONS REVIEW**

We have completed a review of the Department of Health Services' (DHS or Department) contract monitoring operations. In November 2013, we reported that DHS began implementing measures to strengthen their contract monitoring efforts, and that we planned to evaluate their efforts after allowing the Department sufficient time to integrate contract monitoring best practices in their operations.

Background and Scope

DHS has over 1,000 contracts for a wide variety of services valued at over $5 billion. Some examples include physician, medical transcription, facility housekeeping, and laboratory courier services. The Department's Contracts and Grants (C&G) Division is responsible for monitoring contractor compliance with administrative contract requirements. Responsibility for monitoring compliance with programmatic (service delivery) and fiscal contract requirements is decentralized to a wide range of staff at DHS medical centers, clinics, and other facilities (facility monitors). Each DHS facility has a liaison that tracks the completion dates of the facility's monitoring reviews and provides a report to DHS' Centralized Contract Monitoring Division (CCMD) annually of the completed reviews, and CCMD is responsible for providing technical assistance to facility monitors and auditing a sample of the facilities' monitoring reviews to ensure DHS' contracts are effectively monitored.

We evaluated DHS' efforts to enhance their contract monitoring operations. Our review included reviewing the tools and other documentation that the Department uses to monitor contractors and the formal monitoring reports issued for a sample of contracts. In addition, we interviewed staff and examined the contract files for a sample of DHS contract monitors and reviewed the Department's contract reports from the County's electronic Countywide Accounting and Purchasing System.

Results of Review

DHS' contract monitors generally use standardized tools to regularly monitor their contracts. However, we identified areas where DHS can improve their contract monitoring operations. For example, DHS should:

- Develop a formal, comprehensive, risk-based contract monitoring plan annually to ensure contract monitoring resources are effectively allocated to mitigate contracting risk.

  DHS' attached response indicates that they will develop a monitoring plan to ensure that their resources are effectively allocated to mitigate contracting risk.

- Ensure monitoring reviews cover all key contract requirements, and develop appropriate monitoring tools that include the necessary areas.

  DHS' attached response indicates that they will review the monitoring tools used by their contract monitors to ensure that key contract requirements are included.

- Ensure that written reports are issued for all monitoring reviews and distributed to the appropriate DHS managers.

  DHS' attached response indicates that they agree to issue written reports for all contract monitoring reviews to the appropriate DHS managers.

- Ensure contract monitoring staff receive the necessary training to monitor contracts effectively, including providing training specific to their responsibilities.

  DHS' attached response indicates that they will provide training on a quarterly and as-needed basis to their contract monitors.

Details of our review and recommendations are attached.

Review of Report

We discussed the results of our review with DHS management. The Department's attached response (Attachment II) indicates general agreement with our findings and recommendations.

We thank DHS management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:PH:DC:AA

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Mitchell H. Katz, M.D., Director, Los Angeles County Health Agency
Public Information Office
Audit Committee

DEPARTMENT OF HEALTH SERVICES
CONTRACT MONITORING OPERATIONS REVIEW
FISCAL YEAR 2014-15

Background

The Department of Health Services (DHS or Department) has over 1,000 contracts for a wide variety of services valued at over $5 billion. Some examples include physician, medical transcription, facility housekeeping, and laboratory courier services.

The Department's Contracts and Grants (C&G) Division is responsible for contract development and procurement, and monitoring contractor compliance with administrative contract requirements. Responsibility for monitoring compliance with programmatic (service delivery) and fiscal contract requirements is decentralized. Specifically, Department staff ranging from clerks to nurses and physicians at DHS medical centers, clinics, and other facilities (facility monitors) are responsible for service delivery and fiscal monitoring for all the Department's contractors. Each DHS facility has a liaison that tracks the completion dates of the facility's monitoring reviews and provides a report to DHS' Centralized Contract Monitoring Division (CCMD) annually of the completed reviews.

DHS' CCMD functions as the Department's contract monitoring quality control. CCMD provides technical assistance to facility monitors and audits a sample of the facilities' monitoring reviews to ensure DHS' contracts are effectively monitored.

Scope of Review

We evaluated DHS' efforts to enhance their contract monitoring operations. Our review included reviewing the tools and other documentation that the Department uses to monitor contractors and the formal monitoring reports issued for a sample of contracts. In addition, we interviewed staff and examined the contract files for a sample of DHS contract monitors and reviewed the Department's contract reports from the County's electronic Countywide Accounting and Purchasing System (eCAPS).

Contract Monitoring Plan

To effectively allocate contract monitoring resources and mitigate contracting risk, departments need to develop a department-wide comprehensive, risk-based contract monitoring plan (Plan) annually. The Plan should be formalized in writing and identify the high risk contracts within the department. In addition, the Plan should identify the scope and frequency of the monitoring reviews and list the group responsible for performing fiscal, service delivery, and administrative monitoring of the contracts. Departments should evaluate their performance against the Plan at year-end. Departments should also develop contract-specific monitoring plans for each of their contracts. Formally documenting contract-specific monitoring plans in writing, ensures that monitors are aware of, and accountable for, their responsibilities.

The Department indicated they have a general requirement for facility monitors to monitor their contracts and report their results to CCMD annually. However, DHS needs to develop a formal, comprehensive, risk-based Plan annually to ensure C&G Division and facilities effectively allocate contract monitoring resources to perform their reviews of fiscal, service delivery, and administrative contract requirements. The Department should then evaluate their performance against the Plan at year-end.

Recommendations

Department of Health Services management:

1. **Develop a formal, comprehensive, risk-based contract monitoring plan annually to ensure Contracts and Grants Division and facilities' contract monitoring resources are effectively allocated to mitigate contracting risk.**

2. **Ensure the contract monitoring plan identifies the scope and frequency of the reviews and lists who is responsible for performing fiscal, service delivery, and administrative monitoring of contractors.**

3. **Evaluate the Department's performance against the comprehensive contract monitoring plan at year-end.**

Contract Monitoring Reviews

Monitoring Scope

The scope of a contract monitoring review should include steps to evaluate the contractor's compliance with key contract requirements noted in the contract. Departments should develop standardized monitoring tools that list the actions and procedures contract monitors are supposed to follow in evaluating a contractor's compliance with the provisions of the County contracts. Standardized monitoring tools provide guidance to staff and help ensure consistency among monitors. Completed monitoring tools can be used to document the Departments' monitoring efforts.

To evaluate the scope of DHS' monitoring reviews, we reviewed the completed tools and other documentation that the facility monitors used to monitor ten contracts. For one (10%) contract, the facility monitor did not use monitoring tools to document the results of their monitoring reviews. As a result, we could not determine the appropriateness of the monitoring scope for the contract. In addition, the monitoring scope for four (44%) of the remaining nine contracts reviewed did not include several necessary steps for staff to monitor the key contract requirements. Specifically, we noted:

- For four (44%) contracts, the monitoring scope did not include reviewing all of the information necessary to verify that the contractors billed DHS accurately. For one

of these contracts, we noted that the contractor billed DHS using the prior contract's rates, resulting in overbilling the County. We referred this issue to DHS C&G Division and CCMD to investigate and seek reimbursement for the overbilled amount.

- For three (33%) contracts, the monitoring scope did not include a review of all the contract personnel requirements (e.g., background clearances, etc.).

- For one (11%) contract, the monitoring scope did not include reviewing the contract's quality of service requirements.

As a result, DHS cannot ensure that the contractors complied with the key contract requirements. In addition, for one (11%) contract, the DHS facility was not monitoring the contract services at one (50%) of the two facilities we reviewed because the Department did not assign a monitor for the facility.

Recommendations

Department of Health Services management:

4. **Ensure reviews cover all key contract requirements, and develop appropriate monitoring tools that include the necessary areas.**

5. **Ensure monitors are assigned for contracts at each applicable facility.**

Reporting Monitoring Results

Issuing written reports to formally communicate the results of individual contract monitoring reviews improves awareness throughout the Department of the contractor's performance. In addition, providing a written report to the contractor provides them with formal notification to correct the areas of noted deficiencies, and provides documented justification to enforce contract remedies.

For three (30%) of the ten contracts reviewed, the facility contract monitors did not issue formal monitoring reports and, for all ten of the contracts reviewed, the written reports were not provided to senior departmental management.

Recommendation

6. **Department of Health Services management ensure that written reports are issued for all monitoring reviews and distributed to the appropriate DHS managers.**

Contract Files

Contract monitors should maintain contract files that are detailed and organized to help ensure that they monitor contracts properly and so that the monitoring procedures and history of each contractor can be reconstructed and understood in the absence of the monitor. Contract files should include the contract and any amendments, the contract-specific monitoring plan, all required reports from the contractor, all invoices, historical monitoring review documentation and reports, and documentation of any complaints, disputes, meetings, and correspondence.

We reviewed the contract files for 21 facility monitors responsible for monitoring ten DHS contracts. We noted that all of the 21 facility monitors' files lacked various necessary documents. Specifically, nine (43%) of the 21 facility monitors' contract files did not include a copy of the current contract, three (14%) did not include the contractor's invoices, and all 21 files did not include contract-specific monitoring plans. Not maintaining these documents increases the risk that the contracts will not be monitored properly. For example, for the contract previously discussed where the contractor billed using the prior year rates, the DHS facility monitor did not have the current contract, which indicates the current billing rates, in her contract files.

Recommendation

7. **Department of Health Services management ensure facility monitors maintain contract files that are detailed and organized.**

Staff Development

Experienced and well-trained staff are necessary for efficient and effective contract monitoring functions. Establishing written qualification and training standards for monitoring staff helps ensure a qualified monitoring workforce. Contract monitors should be trained on their roles and responsibilities, departmental monitoring methodology and documentation standards, and protocols for reporting the results of their monitoring reviews. Where possible, monitors should also receive training specific to the contracts they are assigned to monitor.

DHS has not established written qualifications or training standards for their monitoring staff. However, over 400 DHS managers and staff attended a brief class on the principles of contract monitoring during Fiscal Year 2012-13 and 51 DHS staff completed the Auditor-Controller's Countywide Contract Monitoring Certification Program in 2014. In addition, CCMD indicated that they have provided a significant amount of training to facility monitors specific to their contract. However, nine (43%) of the 21 DHS facility monitors we interviewed indicated that they needed additional training. DHS should continue to provide training to their monitoring staff to ensure that the staff monitor their contracts effectively.

Recommendation

8. **Department of Health Services management ensure contract monitoring staff receive the necessary training to monitor contracts effectively, including providing training specific to their responsibilities.**

eCAPS Contract Monitoring Reports

The County's eCAPS provides contract reports that alert departments to take necessary administrative actions on their contracts. The reports notify departments of contracts that are expired or over budget according to eCAPS, or were entered in eCAPS without a budget or contract end date. Departments need to maintain accurate contract information in eCAPS and review their eCAPS contract reports regularly to ensure they take appropriate action when necessary and to ensure they monitor their contracts effectively.

Our review disclosed that DHS does not regularly review and update contract information in eCAPS. The chart below indicates the eCAPS discrepancies (i.e., expired contracts that should be deactivated, contract budgets that are not updated, etc.) as of August 2015:

eCAPS Contract Discrepancies As of August 2015	
Expired Contracts	821
Over Budget Contracts	83
Contracts Without a Budget	23

Department management indicated that their C&G Division is working to resolve the discrepancies in eCAPS. Once resolved, the C&G Division will be able to review DHS' eCAPS contract reports regularly and monitor their contracts more effectively.

Recommendations

Department of Health Services Contracts and Grants Division management:

9. **Resolve the remaining discrepancies in eCAPS.**

10. **Review eCAPS contract reports regularly to ensure the Department takes any necessary administrative actions on their contracts.**

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To ensure access to high-quality, patient-centered, cost-effective health care to Los Angeles County residents through direct services at DHS facilities and through collaboration with community and university partners.

November 3, 2015

TO: John Naimo
Auditor-Controller

FROM: Gregory C. Polk
Deputy Director, Administrative Operations

SUBJECT: **DEPARTMENT OF HEALTH SERVICES CONTRACT MONITORING OPERATIONS REVIEW**

This is in response to the Auditor-Controller's (A-C) recommendations resulting from your office's Department of Health Services (DHS) Contract Monitoring Operations Review. As discussed in our recent exit conference, DHS generally concurs with the A-C's recommendations. Specifically, the following details our response to A-C's recommendations:

1. **Develop a formal, comprehensive, risk-based contract monitoring plan annually to ensure Contracts and Grants Division and facilities' contract monitoring resources are effectively allocated to mitigate contracting risk.**

   DHS agrees in part. However, we do not believe this responsibility resides with Contracts and Grants Division. Because Centralized Contract Monitoring Division (CCMD) is responsible for ensuring oversight of all of the Department's contracts, we will develop our own monitoring plan ensuring our resources are effectively and efficiently allocated to provide optimal coverage and to mitigate contracting risk. Similarly, the facilities should comply with the County Fiscal Manual § 12.5.0 and develop their own formal monitoring plan to monitor annually the contracts in use at their respective facilities; and, provide a copy of their plan to CCMD.

2. **Ensure the contract monitoring plan identifies the scope and frequency of the reviews and lists who is responsible for performing fiscal, service delivery, and administrative monitoring of contractors.**

   DHS concurs. Each facilities' management should develop a formal contract monitoring plan that identifies the frequency of the reviews and lists the Facility Contract Monitor (FCM) who is responsible for conducting the monitoring of contractors. The scope of the review is typically dictated by the agreement, terms and conditions, and statement of work enumerated in the individual contracts and corresponding contract monitoring instruments.

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3. **Evaluate the Department's performance against the comprehensive contract monitoring plan at year-end.**

   DHS concurs. CCMD continues to provide each facility with a Status of Contract Monitoring Report (SCMR) template in July/August of each year to obtain an overview of each facility's monitoring performance for the fiscal year (FY) under review. The SCMR enables CCMD to evaluate each facility's compliance in monitoring the contracts they use, and provides CCMD a guideline to determine our audit/oversight efforts for the subsequent fiscal year.

4. **Ensure reviews cover all key contract requirements, and develop appropriate monitoring tools that include the necessary areas.**

   DHS concurs. For the recent FY 2013-14 under review, CCMD obtained copies of the monitoring instruments (MI) used by the facilities to monitor their respective contracts. We reviewed, edited and compared the facilities' MIs to the applicable contracts to ensure all elements of the Statement of Work and Terms and Conditions of the contract are addressed. Moving forward, we intend to continue this process.

5. **Ensure monitors are assigned for contracts at each applicable facility.**

   DHS concurs. Although the assignment of FCMs is not explicitly stated in CFM § 12.5.0, it is understood from numerous memos since 2001 that it is DHS and the Boards' expectation that all active DHS contracts will be monitored at least once during a fiscal year; which, implicitly requires the assignment of FCMs to monitor the multitude of contracts.

6. **Ensure that written reports are issued for all monitoring reviews and distributed to the appropriate DHS managers.**

   DHS concurs. According to CFM § 12.5.2, subsection 7 (p. 292), Contractor Evaluation and Follow-up Activities, "a written report should be prepared and distributed to the contractor, the County manager responsible for the contracted service and other appropriate departmental offices." In addition, reporting to the contractor should be timely, well-documented and decisive.

7. **Ensure facility monitors maintain contract files that are detailed and organized.**

   DHS concurs. If documentation does not exist, then there is a rebuttable presumption that the work had not been done. Prior to releasing a report, the FCM must have completed all necessary procedures and provide support for all significant findings or issues and final conclusions, which includes obtaining sufficient evidence to support the representations in the FCM's report before its release date.

8. **Ensure Contract monitoring staff receive the necessary training to monitor contracts effectively, including providing training specific to their responsibilities.**

   DHS concurs. While we believe it is the Facility Contract Liaison's responsibility to provide some training to their FCMs, CCMD has undertaken the role of providing group training on a quarterly basis to new FCMs and specialized one-on-one contract-specific training on an as-needed basis to FCMs.

9. **Resolve the remaining discrepancies in eCAPS.**

   DHS concurs and continues to work the eCAPS exception reports in an effort to eliminate discrepancies. The DHS Contracts and Grants Division (C&G) fully implemented centralized responsibility for all new eCAPS data entry in July 2011 through a phased in approach by DHS facility. Cleanup of historical data is still taking place with a continuing reduction in the number of eCAPS discrepancies over time.

   It should be noted that although the A-C report identified 821 "expired contracts" as of August 2015, that number doesn't represent expired contracts where DHS is continuing to receive services. In reviewing the current eCAPS reports, the contracts include contracts that cannot be closed out in eCAPS until all invoices have been paid for services received during the contract term. Additionally, with multiple year contracts, a past contract year must be manually deactivated in eCAPS or the contract shows as expired. As of September 30, 2015, the number of "expired contracts" had been reduced to 506.

   With regards to the "over budget" contract report category in the A-C report, the contracts are those where there is no maximum contract sum (master agreements used by multiple facilities such as home health and hospice, nurse and allied health registries, ambulance services, etc.) and C&G uses estimates by facility for the initial eCAPS entry. If actual usage goes over the estimate used for the eCAPS budget then C&G must obtain appropriate documentation from the respective facility in order to increase the amount of the contract "budget" in eCAPS. As of September 30, 2015, the number of "over budget" contracts was reduced to 73.

   The A-C report also referenced the "contracts without a budget" category. These discrepancies tend to relate to contract periods where the contract was set up in eCAPS for a particular facility but there was no estimate of usage provided so no dollar amount entered. C&G is unable to process any corrections without appropriate documentation from the respective facility. As of September 30, 2015, the number of "contracts without a budget" was reduced to 21.

10. **Review eCAPS contract reports regularly to ensure the Department takes any necessary administrative actions on their contracts.**

    DHS concurs. C&G management reviews the eCAPS reports each month and those reports are provided to C&G staff with a request to resolve the exceptions and make corrections in eCAPS. C&G continues to make progress to reduce the number of eCAPS exceptions. It should be noted that DHS has not requested Board approval of any retroactive contracts or cost overruns for any contracts since late 2007.

    GCP:mc