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TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne B. Burke  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **DEPARTMENT OF HEALTH SERVICES  
CENTRALIZED CONTRACT MONITORING**

We have conducted a follow-up review of the Department of Health Services' (DHS) Board-ordered centralization of its contract monitoring function. Our previous review in March 2002 indicated that DHS had established a Centralized Contract Monitoring Division (CCMD). However, due to inadequate staffing, CCMD was still in the start-up phase.

The purpose of this review was to determine the current staffing of the CCMD and the extent centralized contract monitoring has been achieved, as well as determining the status of CCMD's operational protocols.

**Review Summary**

DHS still does not have adequate management controls to ensure all contracts are properly monitored. The CCMD is still staffed at only a fraction of the personnel necessary to perform its originally planned contract reviews and oversee the reviews performed by the other DHS units. A review of the quality of the monitoring of other units has not been performed and basic management information such as a department-wide list of all contracts and the program offices responsible for monitoring the contracts is not available. We also noted that a formal risk assessment has not been performed to identify priority contracts for monitoring.

Details of these and other issues, along with recommendations for corrective action, are included in the attached report.

*"To Enrich Lives Through Effective and Caring Service"*

The Board has recently approved an expansion of the Auditor-Controller's Countywide contract monitoring pilot to include DHS. We will be meeting with DHS in the next few weeks to evaluate what actions our departments can take to improve the monitoring of DHS' contracts.

### **Review of Report**

We discussed this report with DHS and CCMD management. They indicated general agreement with our findings and recommendations. DHS indicated that they will issue a detailed response in 60 days in accordance with Board policy.

If you have any questions, please contact me or your staff may contact Jim Schneiderman at (626) 293-1103.

JTM:DR:JS

Attachment

c: David E. Janssen, Chief Administrative Officer  
Thomas L. Garthwaite, M.D., Director and Chief Medical Officer, DHS  
Violet Varona-Lukens, Executive Officer  
Public Information Office  
Audit Committee (6)

## **Department of Health Services Review of Centralized Contract Monitoring**

### **BACKGROUND**

The Department of Health Services (DHS) has approximately 2,400 contracts with private companies and agencies with a value of over \$940 million. Examples of contracted services include Public Private Partnership clinics, alcohol and drug treatment and housekeeping services. In May 2001, based on concerns with the level of contract monitoring being performed, the Board instructed DHS to reinstate a centralized contract monitoring unit and assign it the responsibility of overall contract monitoring.

DHS was to work with the Auditor-Controller to develop an implementation plan. In July 2001, DHS transmitted the plan to the Board. The plan called for the establishment of a Centralized Contract Monitoring Division (CCMD) which was to be responsible for conducting fiscal and administrative reviews for all contracts, and was to have oversight responsibility for program reviews conducted by program staff to ensure consistency, uniformity and timeliness of the reviews and the adequacy of the corrective action process.

In October 2002, DHS reported to the Board that, because of its focus on its Redesign and Fiscal Stabilization Plan, it had been unable to allocate sufficient staff to effectively centralize contract monitoring. DHS indicated that they would continue to allocate items to the CCMD as they were identified during the Department's restructuring.

In April 2003, DHS reported to the County Audit Committee that, although it still had not been able to allocate sufficient staff to provide the optimal level of contract monitoring and oversight, it had instituted protocols to maximize the benefits of the available staff of the CCMD. These included risk assessments of all contracts to identify those requiring enhanced monitoring and random audits.

### **SCOPE**

The purpose of our review was to determine the current staffing of the CCMD and the extent centralized contract monitoring has been achieved, as well as determining the status of CCMD's operational protocols.

The review consisted of interviews with CCMD and other DHS staff and reviews of various reports and other available documentation.

### **CCMD Staffing**

When CCMD was established, DHS estimated that it would take 65 personnel to fully staff CCMD. However, CCMD is actually staffed with only 23 personnel, which is insufficient to monitor such a large number of contracts and oversee the program monitoring performed by program staff. During Fiscal Year 2002-03, CCMD conducted 337 administrative reviews and 413 fiscal reviews out of DHS' total of approximately

2400 contracts. The other contracts may have been monitored by other DHS units. However, as discussed later, information is not readily available regarding the program offices responsible for monitoring the other contracts.

Historically, DHS has not allocated sufficient resources to ensure contracts are properly monitored. The current budget crisis makes allocation of additional resources even more difficult. However, because of the importance of the services being contracted, the extremely large amount of funds being expended, and the large number of contracts, adequate monitoring is essential to ensure County resources are properly used for the benefit of the public. DHS needs to work with the CAO and the Board to identify and allocate sufficient resources to the CCMD to adequately monitor contracts.

### **Recommendation**

- 1. DHS administration work with the CAO and the Board to identify and allocate sufficient resources to the CCMD.**

### **Monitoring Quality Control**

DHS' Audit and Compliance Division (ACD) is responsible for performing contract monitoring quality control reviews of all DHS units, including CCMD. DHS procedures require CCMD and other facilities/program offices that perform contract monitoring to submit an annual Status of Contract Monitoring Report (SCMR) on the number of contracts monitored to ACD. ACD is supposed to review the SCMRs from the various units and prepare a department-wide SCMR on the number of contracts monitored and the type of monitoring completed (administrative, fiscal and program monitoring). ACD is also supposed to evaluate the quality of the monitoring activities by sampling and reviewing completed contract monitoring instruments and supporting documentation.

ACD has prepared a department-wide SCMR. However they have not reviewed the contract monitoring instruments or supporting documentation to ensure that the other DHS units are properly monitoring to ensure contractors are monitored according to DHS standards.

We also noted that there is no department-wide list that links contracts with the facilities/program offices responsible for monitoring them. Because of the large number of contracts and the fact that contractors can contract for several programs, such a list is necessary to avoid misunderstandings and ensure facilities/program offices are aware of their responsibilities.

### **Recommendations**

- 2. DHS management ensure that, at least annually, a survey is conducted and a report prepared to determine the degree of monitoring taking place.**

3. **DHS management ensure that contract monitoring instruments and supporting documentation are reviewed to ensure that contracts are monitored in accordance with DHS standards.**
4. **DHS management require that a department-wide list, linking all contracts with the facility/program office responsible for monitoring, is prepared and distributed.**

### **Timeliness of Reports**

We noted that CCMD's Public Private Partnership (PPP) monitoring reports are often not issued timely and that the reports can take up to a year and a half to be issued. Contributing to the delays is the fact that the final reports are being cleared through program management and County Counsel prior to being issued.

While CCMD should, of course, discuss important issues with program staff and County Counsel, there should not be a need to obtain their approval before issuing all reports. Performance and documentation requirements should be established before reviews are started. In fact, they should be established as part of the contract. It also appears that the program staff has the ability to require alteration of the reports. This can negate some of the independence and objectivity advantages of a centralized monitoring unit and result in important issues not being disclosed.

CCMD also sometimes delays the issuance of final reports until the contractors submit corrective action plans (CAPs). This can result in lengthy delays in both reports and the initiation of corrective actions. While it is best to have both timely reports and CAPs, a time limit, three to four weeks, should be established to receive CAPs. Once the limit has been reached, reports should be issued regardless of whether a CAP has been received.

### **Recommendations**

5. **DHS management minimize the practice of requiring program staff and County Counsel approval before CCMD issues all final reports and require DHS management's approval to make report changes requested by program staff and County Counsel.**
6. **DHS management set a time limit for the receipt of CAPs after which reports will be issued.**

### **Risk Assessment**

As part of its effort to maximize the benefit of its resources, CCMD was supposed to conduct a risk assessment of all of DHS' contracts. CCMD does a financial monitoring risk assessment for the contracts CCMD monitors. However, there is no department-wide risk assessment for all contracts being performed.

To ensure DHS focuses its monitoring resources on the contracts that are the most critical to the Department as a whole, DHS should ensure that a department-wide risk assessment is conducted and that monitoring resources are assigned to contracts with the greatest risk.

**Recommendation**

- 7. DHS management ensure a formal risk assessment is performed for all contracts and assign resources to monitor those with the greatest risk.**