

County of Ventura  
**AUDITOR-CONTROLLER**  
MEMORANDUM

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**To:** Barry Zimmerman, Director, Human Services Agency

**Date:** October 14, 2014

**From:** Jeffery S. Burgh

**Subject:** AUDIT OF THE HUMAN SERVICES AGENCY'S ADMINISTRATION OF SOCIAL SERVICES CONTRACTS

We have completed our audit of the Human Services Agency's administration of social services contracts. The results of our audit are summarized below.

### **BACKGROUND**

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The Human Services Agency ("HSA") is the central resource in Ventura County for public services that promote personal independence and a strong community. HSA's mission is to strengthen families, support self-sufficiency, and promote safety, health, and well-being. HSA serves more than 14 percent of the County's population and provides a safety net for individuals and families who need assistance with basic necessities, such as food, housing, employment, and health care (i.e., "social services").

HSA contracts with outside entities that provide critical programs and services to clients and community members that extend beyond those the agency offers. During fiscal year ("FY") 2013-14, HSA maintained approximately 30 social services contracts valued at over \$16 million. HSA was authorized 1,281 positions for FY 2013-14 and a combined budget of over \$225 million.

### **SCOPE**

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Our overall audit objective was to evaluate the effectiveness of HSA's efforts in administering social services contracts. Specifically, we:

- verified that HSA adequately monitored contractors' fiscal activities to ensure expenditures were in accordance with contract terms;
- evaluated the efficacy of HSA's program monitoring procedures to verify that contractors met established performance measures; and
- determined whether HSA's procedures for the monitoring of contractors' corrective actions were adequate to ensure proper resolution of findings.

Our audit procedures focused on social services contracts in effect during FY 2013-14. The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors using documents from April 2003 through September 2014.

## **FINDINGS**

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Overall, we found that HSA efficiently and effectively managed the administration of social services contracts. Specifically, we verified that:

- HSA performed annual onsite monitoring reviews of contractors to ensure compliance with program and fiscal performance aspects of each contract.
- HSA adequately tracked contractor performance issues found during monitoring reviews and confirmed implementation of corrective action by contractors.
- HSA performed sufficient follow-up on quarterly contractor performance reports that did not meet targeted outcomes and tracked ongoing issues for eventual resolution.
- Invoice reimbursements contained signature approvals by HSA program management and were paid to contractors in a timely manner.

Following are details of one area where improvement was needed to ensure proper payments to contractors. HSA management initiated corrective action as noted.

**Overpayment of Indirect Costs.** Contract invoice reviews and contract language needed improvement to help prevent contractor overpayments. Our evaluation of invoices submitted by nine contractors for services rendered during March 2014 disclosed that one (11%) contractor was paid for indirect costs exceeding the federally-approved indirect cost rate of 5.75 percent. Although invoices were reviewed prior to payment to ensure that contractor expenditures were appropriate and within line item budget, HSA did not identify that indirect costs were calculated incorrectly. Upon notification during our audit, HSA confirmed that the contractor had been overpaid \$2,175 for indirect costs during the FY 2013-14 contract term and recouped the overpayment. Further, the contract budget was not clear on the computation of indirect costs, and the indirect cost rate was not applied properly to the breakdown of cost categories. As a result, this could have affected the contracting parties' understanding of the terms of the contract.

**Recommendation.** We recommend that HSA perform a more thorough and accurate review of invoices prior to payment. Additionally, contracts should incorporate more explicit language with respect to the indirect cost calculation methodology that supports the breakdown of cost categories within the contract budget (e.g., by specifying the formula used to calculate indirect costs).

**Management Action.** HSA management stated:

"We agree with Auditor-Controller comment that internal review procedures can be improved to ensure proper calculation of indirect cost rates on contractor invoices. We acknowledge that contract language regarding the calculation of the contractors' allowable indirect cost rate was vague and could be interpreted in such a way that the methodology used by the contractor might result in a rate greater than allowed by their federal fund source.

"HSA has prepared a modification to this contract that adjusts the budget and spells out the calculation methodology to be used to calculate their indirect cost rate that is in compliance with the rate as approved by their federal fund source. In addition, future contracts with this contractor, and any other HSA contracts that allow for an approved indirect cost rate, will similarly include the precise methodology to be used in calculating the amount to be reimbursed as indirect costs.

"Procedures for review of Contractor invoices have been revised to specify responsibilities of both the fiscal staff and program staff responsible for overseeing contract deliverables. The procedures are being re-issued and HSA staff involved in the invoice review process are being made aware of the need to conduct a thorough review of each invoice prior to approval."

### **AUDITOR'S EVALUATION OF MANAGEMENT ACTION**

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We believe that management's planned corrective action was responsive to the audit finding. Corrective action is planned to be completed by November 21, 2014.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

cc: Honorable Steve Bennett, Chair, Board of Supervisors  
Honorable Kathy Long, Vice Chair, Board of Supervisors  
Honorable Linda Parks, Board of Supervisors  
Honorable Peter C. Foy, Board of Supervisors  
Honorable John C. Zaragoza, Board of Supervisors  
Michael Powers, County Executive Officer