



Douglas County Internal Audit

June 28, 2017

Douglas County Board of Commissioners
1819 Farnam Street, Suite LC2
Omaha, NE 68183

Attention: Mary Ann Borgeson, Mike Boyle, Jim Cavanaugh, Clare Duda, Marc Kraft,
PJ Morgan, and Chris Rodgers

Patrick Bloomingdale, Douglas County Administrator
Eric Carlson, Purchasing Agent
1819 Farnam St.
Omaha, NE 68183

Dear Commissioners, Mr. Bloomingdale, and Mr. Carlson:

I have completed an audit of the County's contract monitoring processes. The purpose of the audit was to assess the processes used by the County to monitor contract performance and verify the accuracy of the related vendors' billings. The audit revealed that the monitoring of contracts is not always being performed effectively by all departments. Additional findings of less significance were noted in a separate report that was issued to the Purchasing Agent and the Douglas County Administrator.

Background

The monitoring of contracts within the County is decentralized. Each department where contractual goods or services are received is responsible for monitoring contract compliance. Monitoring for compliance includes making sure that:

- Vendors provide goods and services according to contractual specifications.
- The County fulfills its responsibilities according to contract terms.
- Performance bonds and insurance policies protecting the County are secured and properly maintained.
- Appropriate reporting is provided by vendors.
- Vendor billings reflect the actual receipt of goods and services provided and the accurate extension of prices and quantities.

In 2011 the County purchased contract database software from Cobblestone Systems. A Purchasing Department Specialist as well as other employees are responsible for populating the

database. The intent is for all County contracts to reside in the Cobblestone database. Appropriate data input enables the software to automatically alert assigned personnel to help ensure that contract renewal or other efforts are undertaken to secure an uninterrupted flow of goods and services. Cobblestone is also used by personnel in the Clerk/Comptroller's office to help them in their audit of invoices.

Objective

The purpose of the audit was to determine if:

- There are effective contract monitoring policies and procedures in place overall as well as for individually selected contracts.
- The contract database and Oracle financial system are being used effectively to help management achieve its goals and improve future contract performance.

Scope

The policies and processes used during the period May 1, 2016 through April 30, 2017 were assessed. Eight contracts in effect during this period were judgmentally selected to test for effective monitoring by individual departments. The eight contracts selected were:

- OHARA, LLC – provides managed care services for employees who are on workers compensation.
- Select Rehabilitation – provides rehabilitative services for patients of the Douglas County Health Center and the Primary Health Care Clinic.
- Topkote – armor coated 36.4 miles of County roads at various locations.
- Nebraska Department of Correctional Services – provides laundry services to the County Department of Corrections.
- Universal Protection Service, LP – provides security services at the County's Midtown Campus.
- National Paper Company – provides cleaning supplies and dietary paper and plastic items
- Petroleum Traders Corporation – provides unleaded gasoline and diesel fuel.
- Urban League of Nebraska – through the use of a state grant, provided two staff members to facilitate the Truancy Reduction Program at McMillian Magnet Center and Nathan Hale Magnet Middle School.

Methodology

The information documented by Internal Audit was obtained through interviews and observations of the policies and procedures in place as of the period identified in the scope. Contracts and related documents were obtained from the Cobblestone database, department personnel, and vendor submissions. Along with an assessment of the policies and procedures as provided, tests were performed to verify contract compliance and billing accuracy. The tests included but were not limited to the following steps below:

- The data input into the Cobblestone database was compared to the contracts to determine if it was entered accurately.

- The individual departmental procedures used to monitor individual contracts were assessed to determine if there was evidence of an effective monitoring process in place.
- Copies of performance bonds and insurance certificates were obtained to see that they were current and agreed to contract terms.
- Invoices and supporting documentation were obtained to determine if there was evidence to support the receipt of goods and services included in vendor billings.
- Billing rates were agreed to contractual rates, and the invoices were extended.

Fifty vendor billings were judgmentally selected for testing. The issues identified appear in the Findings section below:

Findings

Policies and Procedures

Criteria: Management should define and communicate the necessary policies and guidelines needed to effectively monitor contract compliance including vendor billings.

Condition: There were no county-wide policies or guidelines in place to help ensure that all departments had effective contract monitoring and billing verification processes in place. Various aspects of contractual terms and billings were not effectively monitored by all departments. This is a repeat finding from the 2013 and 2015 audits of contract monitoring. Those contracts not listed below were monitored effectively. Specific findings related to the contracts tested appear below:

- The County did not require operational reporting from the Urban League of Nebraska. It is reasonable to require reporting of specific measures that would delineate success of the program funded by the grant. It is noted that expected guidance from the granting agency, the Nebraska Crime Commission, was never received. (The amount of the grant was \$60,000.)
- The billing rates for Select Rehabilitation and OHARA were not being verified with the contractual terms.
- The individual items ordered from National Everything Wholesale were not always verified with the current contract.

Effect: Results of ineffective monitoring included the following:

- Without detailed reporting, the County had no way to determine or measure the success of the effort put forth by the Urban League to facilitate the Truancy Reduction Program at McMillian Magnet Center and Nathan Hale Magnet Middle School.
- Select Rehabilitation was billing the County Health Center at 80% of the Medicare rates instead of 80% of the Medicaid rates per the contract terms. This resulted in substantial overbillings over the term of the contract.
- Select Rehabilitation was charging the Primary Health Care Clinic (PHCC) at \$1.08 per minute rather than 80% of the NE Medicaid Fee Schedule per the contract terms.

(Note: Select Rehabilitation has acknowledged the errors and has issued a credit memo to the County for \$60,543.58 – the Health Center’s share was \$60,507.68 and the PHCC’s share was \$35.90.)

- Ordering one dietary item from National Everything Wholesale using the prior year product bid rather than the current contract bid resulted in the County paying \$534.45 more than it should have.
- The County could not be sure that all OHARA billings were accurate.

Cause: Management did not provide or communicate appropriate guidance or training to help ensure personnel understood all aspects of how to effectively monitor contract compliance. There is no one at the County who has been assigned this responsibility. There is no one who oversees overall departmental effectiveness in monitoring contracts.

Recommendation: Formally document the policies and procedures needed to effectively monitor contract compliance including assigning responsibilities to appropriate personnel to train and communicate the policies to County personnel. The policies should include instructions that will answer the following questions:

- Who has overall responsibility for ensuring that contractual obligations are met?
- Who will monitor operational performance?
- What are the key deliverables that need to be monitored?
- How will the deliverables be monitored and how often will it need to be done?
- If appropriate, has an appropriate plan been prepared (e.g., milestones, timelines, dependencies etc.)?
- Are there unique accounting, purchasing, or other aspects that need to be communicated to other personnel within the County?
- Are there other agreements in place that affect how the contract will be administered?
- Who will approve billings/payments?
- Who will verify the accuracy of the billings/payments and how will it be accomplished? (Where feasible, consider making use of data analytics to ensure the accuracy of vendor billings, particularly for billings that contain voluminous data.)
- Is there an appropriate problem/dispute resolution plan in place including how to identify contract noncompliance?
- What documentation needs to be obtained and maintained within the department or forwarded to other departments or entities to ensure contract compliance and billing/payment accuracy, and who will obtain the documentation?
- How will timely procurement of key contractual obligations be ensured (e.g., continued performance bond and insurance coverage)?
- Are there ancillary processes that need to be considered to properly administer the contract?

Management Response: Each department director and elected official is responsible for monitoring the contracts that come out of their particular department or office. To have one County-wide staff person be responsible for monitoring the hundreds of County contracts would be impractical, if not impossible.

I (the Douglas County Administrator) will speak with each of the department directors who are under my purview as to what contract monitoring resources and processes they have, or should have, in place. The elected officials and those departments not under my purview are autonomous on matters not involving the annual County Board allocation of budget dollars and therefore I cannot direct what contract monitoring processes they should implement.

Audit Standards

Internal Audit conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

Internal Audit appreciates the excellent cooperation provided by the various departmental directors, managers, and staff. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki
Internal Audit Director

- cc: Mark Rhine
- Jude Lui
- Richard File
- Lenny Swanger
- Diane Carlson
- Joe Lorenz
- Dan Esch
- Sheri Larsen
- Jodi Campbell
- Jean Hartnett
- Dede Will
- Deb Redding
- Jerry Leahy
- Tom Doyle
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