A SPECIAL PERFORMANCE AUDIT OF THE DEPARTMENT OF HEALTH

HIV/AIDS PREVENTION PROGRAM

MAY 2010

Bureau of Departmental Audits

May 4, 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
225 Main Capitol Building
Harrisburg, PA 17120

Dear Governor Rendell:

This report contains the results of the Department of the Auditor General's special performance audit of the HIV/AIDS Prevention Program (program) administered by the Pennsylvania Department of Health (Health). The audit covered the period July 1, 2002 through June 30, 2008, including follow-up procedures concluded as of December 2009. This audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code and in accordance with generally accepted government auditing standards (GAGAS). The aforementioned 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 objectives.

This audit report would be remiss by not acknowledging Health's cooperation throughout the performance of our audit. Furthermore, despite the seriousness of our findings, we commend management for its receptive response to our overall audit and its readiness to develop proposals immediately to ensure suitable corrective action relevant to our recommendations.

Our auditors found that Health failed to oversee how program money was spent, which resulted in more than $700,000 of waste, abuse, and potential fraud. Our conclusions stem from the discovery that there is no requirement for contractors to submit source documentation to support invoices submitted to Health for payment. In addition, project officers perform a cursory review of what actually is provided to ensure that invoice backup documentation amounts agree to summary invoice amounts. Moreover, there is no detailed review of expenditure documentation of the contractors. Health also relies on the contractors to monitor the subcontractors' services and corresponding expenditures.

Additionally, our interviews found that the project officers encourage the contractors to fulfill their contractual responsibilities by spending the entire contract amount. The spending of contract monies should not be the priority over the quality of services provided. As long as the contractor fulfills its responsibilities, Health appears unconcerned as to how contractors spend taxpayer money. This attitude increases the risk that contractors may invoice Health for expenditures not related to the contracted services or may allow the contractors to spend the Commonwealth's money inappropriately.

Health should improve its monitoring of the program because our audit found a lack of written policies and procedures, which may result in Health paying for inappropriate expenditures or may result in Health improperly concluding on the monitoring results of the contractors. Health also needs to improve its on-site monitoring because its checklist documentation needs to be enhanced; the on-site monitoring form should require the selection of a sample of source invoice documentation to ensure that expenditures are appropriate, adequately supported, and in compliance with the contracts; and on-site visits were not conducted annually for contractors. Finally, Health's should document its review of data because there is currently no documentation stating that a comparison of submitted data reports is performed, when it was performed, and what conclusions were reached.

We offer 11 recommendations to address identified deficiencies and strengthen Health's policies, controls, and oversight with regard to the HIV/AIDS Prevention Program. We are confident that these recommendations, if fully implemented by management, will ensure a responsible allocation of taxpayer dollars, while continuing to provide access to important information that is necessary to maintain the health and well-being of our communities.

Due to the significant waste, abuse, and potential fraud found, we will forward our report to appropriate law enforcement authorities for their review and whatever further action they deem appropriate.

We will follow up at the appropriate time to determine whether and to what extent the department has implemented our recommendations.

Sincerely,

JACK WAGNER
Auditor General

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Results In Brief

The Department of the Auditor General conducted a special performance audit of the HIV/AIDS Prevention Program (program) administered by the Pennsylvania Department of Health (Health). The audit covered the period July 1, 2002 through June 30, 2008, including follow-up procedures concluded as of December 2009. Our audit resulted in 2 findings and 11 recommendations.

Finding One

We discuss and identify deficiencies relevant to Health's failure to oversee how program money was spent, which resulted in more than $700,000 of waste, abuse, and potential fraud. Our conclusions stem from the discovery that there is no requirement for contractors to submit source documentation to support invoices submitted to Health for payment. In addition, project officers perform a cursory review of what actually is provided to ensure that invoice backup documentation amounts agree to summary invoice amounts. Moreover, there is no detailed review of expenditure documentation of the contractor. Health also relies on the contractors to monitor the subcontractors' services and corresponding expenditures.

Additionally, our interviews found that the project officers encourage the contractors to fulfill their contractual responsibilities by spending the entire contract amount. The spending of contract monies should not be the priority over the quality of services provided. As long as the contractor fulfills its responsibilities, Health appears unconcerned as to how contractors spend taxpayer money. This attitude increases the risk that contractors may invoice Health for expenditures not related to the contracted services or may allow the contractors to spend the Commonwealth's money inappropriately. In fact, as part of our review of detailed source documentation from various contractors and subcontractors to support expenditures, we found that the subcontractors' supporting documentation totaling $774,161 included waste, abuse, and potential fraud of $502,135 (or 65% of the total). Moreover, Health paid a contractor for duplicate invoices totaling $223,000 of the contractor's total invoices of $1,245,023.

Results in Brief

We recommend that Health seek reimbursement of $502,135 from the contractors with respect to expenditures related to waste, abuse, and potential fraud. Management should also seek reimbursement of $223,000 from the contractor with respect to duplicate invoices and immediately send internal auditors to the aforementioned contractor in which the duplicated invoices were found in order to assess the control environment and take appropriate corrective action. In addition, we recommend that Health require contractors to provide detailed source documentation along with the summary invoice to Health and require contractors to perform a detail review of applicable subcontractors' invoices. Health should also develop policies and procedures for project officers to follow when reviewing contractor invoices. Furthermore, Health should require project officers within the Division of HIV/AIDS to perform a detail review of the invoice documentation submitted by the contractors to include looking for duplicate invoices, inappropriate expenditures, and expenditures lacking adequate documentation. Finally, we recommend that Health reconcile services performed to expenditures incurred for reasonableness and in compliance with contract terms.

Finding Two

We discuss Health's need for improvement in the monitoring of the HIV/AIDS Program because our audit found a lack of written policies and procedures, which may result in Health paying for inappropriate expenditures or may result in Health improperly concluding on the monitoring results of the contractors. Health should improve its on-site monitoring because its checklist documentation needs to be enhanced; the on-site monitoring form should require the selection of a sample of source invoice documentation to ensure that expenditures are appropriate, adequately supported, and in compliance with the contracts; and on-site visits were not conducted annually for contractors. Lastly, Health's review of data needs to be documented because there is currently no documentation stating that a comparison of submitted data reports is performed, when it was performed, and what conclusions were reached.

Results in Brief

We recommend that Health develop written policies and procedures for monitoring program contracts. Procedures should include when and how often they are to be performed, what documentation needs to be maintained, and who is to receive the results of the monitoring. In addition, Health should require project officers to document by what method the project officers' conclusions were reached on the on-site monitoring checklist. The documentation should include the name and title of the individual providing the information and/or details as to what procedures were performed, such as how many were reviewed or when did the observation occur. We also recommend that Health require all contractors to have an annual on-site visit to ensure that they are complying with their contract terms and properly invoicing Health.

Background

The Department of Health (Health), originally created in 1905, currently employs approximately 1,400 persons and is charged with protecting the health of Commonwealth citizens.[1] It has authority to enforce all statutes pertaining to public health for the prevention and suppression of disease and injury. Health also collaborates with local health agencies in cities, counties, and municipalities.[2] Its mission is to promote healthy lifestyles, prevent injury and disease, and assure the safe delivery of quality health care.[3]

The department has cabinet-level status within the executive branch of state government; therefore, the Governor of the Commonwealth appoints the Secretary of Health to administer the agency. The Senate of Pennsylvania must confirm the appointment.

Health collaborates with public and private partners to perform a vast array of activities, including monitoring the population's health status; promoting healthy behaviors; improving health care quality, access, and accountability; reducing the severity of illness and disabilities; and identifying and eliminating preventable illness and accidents. To administer these activities, Health has structured its organization into four deputates: Health Planning and Assessment, Quality Assurance, Health Promotion and Disease Prevention, and Administration. Moreover, each deputate delegates various responsibilities between offices, bureaus, and divisions.

Division of HIV/AIDS

The Bureau of Communicable Diseases, within the Health Promotion and Disease Prevention deputate, includes three divisions: HIV/AIDS, Tuberculosis and Sexually Transmitted Diseases, and Immunizations. According to its website, the Division of HIV/AIDS (division) has oversight responsibility for numerous HIV prevention and care programs across the Commonwealth. The division's purpose is to develop and implement a multi-dimensional, coordinated strategy to prevent disease and change high-risk behaviors, as well as provide resources and directions for sustaining preventive behavior and avoiding infection with the HIV virus. The division is divided into two sections, a Prevention Section and a Community Programs Section, both of which play a role in HIV/AIDS prevention.

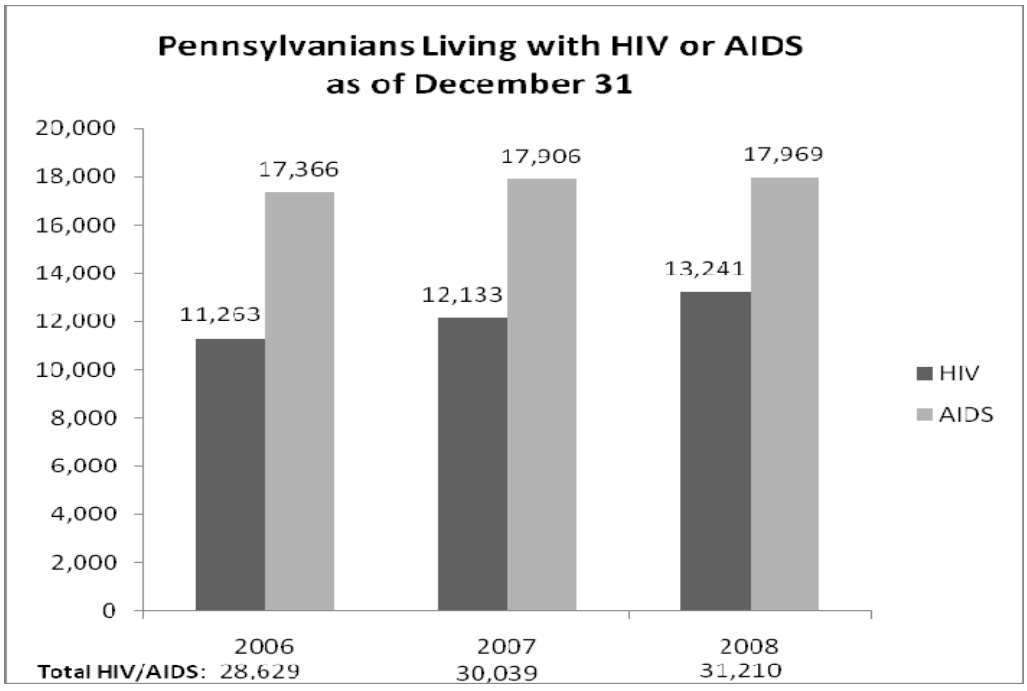
[1] Commonwealth of Pennsylvania, 2009 Governor's Annual Work Force Report, p. 9.
[2] *The Pennsylvania Manual*, Vol. 119, Section 4, p. 65.
[3] Ibid.

Background

HIV and AIDS

According to Health's website, Acquired Immune Deficiency Syndrome (AIDS) is a disease caused by the Human Immunodeficiency Virus (HIV). HIV attacks the body's immune system.[4] AIDS is the late stage of HIV infection, when a person's immune system is severely damaged and has difficulty fighting diseases and certain cancers.[5] HIV is passed from one person to another through blood-to-blood and sexual contact. Additionally, pregnant women can pass HIV to their babies during pregnancy, delivery, or breast-feeding. Most people with HIV carry the virus for years before enough damage is done to the immune system for AIDS to develop. Reducing the amount of virus in the body with anti-HIV drugs can slow this immune system destruction.[6]

According to Health's HIV/AIDS Surveillance Summary Reports dated December 2006, 2007, and 2008, and as illustrated below, the number of Pennsylvanians currently living with HIV or presumed living with AIDS was 28,629, 30,039, and 31,210, respectively:



[4] www.portal.health.state.pa.us/portal/server.pt/community/hiv_aids/14241/mission..., April 12, 2010.
[5] www.cdc.gov/hiv/topics/basic, April 12, 2010.
[6] www.portal.health.state.pa.us/portal/server.pt/community/hiv_aids/14241/mission..., April 12, 2010.

Background

According to the U.S. Centers for Disease Control and Prevention, as of December 31, 2007, Pennsylvania was ranked fifth among states whose citizens live with AIDS.

HIV/AIDS Prevention Program

The HIV/AIDS prevention program (program), funded with state and federal dollars, provides HIV counseling, testing, and referral services; partner counseling and referral services; prevention services for HIV-infected individuals; health education and risk-reduction services; and quality assurance and evaluation through HIV Prevention Program Field Staff and contractors.

HIV/AIDS prevention not only includes educating individuals who may not be aware of HIV/AIDS and how it can be contracted, such as young people, but also includes identifying persons who are at a higher risk of contracting HIV/AIDS, such as injection drug users, men who have sex with men, and heterosexuals having unprotected sexual activity, and having them tested so that they are informed as whether or not they have HIV. Once an individual has tested positive, counseling and referral services can be provided regarding treatment and information as to how to protect partners and others from contracting the virus. Furthermore, an emphasis is placed on trying to identify partners of HIV-infected individuals in order to have them tested. To administer this program, Health contracts with more than 60 contractors to assist in this process, including 10 County/Municipal Health Departments, seven regional coalitions, 44 fee-for-service providers, and 3 other organizations. Additionally, contractors utilize numerous subcontractors to fulfill certain contractual obligations.

Contracts are generally reimbursement-type contracts. Contractors are required to submit the template-driven summary invoices as required per the contract to Health along with general ledger printout information; source documentation is not required. A contractor utilizing subcontractors would incorporate the subcontractors' invoices into its invoices submitted to Health for payment.

Background

Project officers within the division perform a cursory review of the information provided by the contractors. They compare the information provided to the budget established within the contract to assess whether spending is on target to exhaust the entire budget by the end of the contract year and ensure that overspending in each budget category has not occurred. The project officer then approves the invoices and forwards them to be paid.

HIV/AIDS Program Monitoring

In addition to reviewing contractor invoices, project officers are also responsible for monitoring the activities and deliverables of the contractors. Project officers monitor contractor performance by reviewing periodic reports submitted by the contractors, periodically reviewing data representing various activities performed by the contractors or their subcontractors, and conducting annual on-site visits at contractors. To perform on-site monitoring visits, management has developed checklists for project officers to use during the visit. It also identifies information/questions to be answered or addressed during the visit.

Objectives, Scope, and Methodology

Objectives

The objectives of this special performance audit were to determine whether the Department of Health (Health):

- adequately monitored contractor activities (HIV/AIDS testing/counseling, partner counseling, health education and risk reduction services) in accordance with grant contracts and laws (see Findings One and Two);

- expenditures for contractor activities were proper and in accordance with HIV/AIDS prevention services grant contracts and laws (see Finding One); and

- effectively reduces the number of new HIV infections, increases the proportion of HIV-infected persons who know they are infected, and links them to appropriate prevention, care, and treatment services (no findings noted).

Scope

Our audit covered the duties and responsibilities of the department with regard to the HIV/AIDS Prevention Program (program). The audit covered the period July 1, 2002 through June 30, 2008, including follow-up procedures concluded as of December 2009.

Methodology

The methodology in support of the audit objectives included:

- reviewing appropriate statutes, regulations, appropriate operations manuals, annual reports, planning reports, contracts/agreements between Health and its contractors, contracts between one of Health's contractors and its subcontractors, newspaper articles, and related information from the department's website;

- interviewing management and project officers from the Division of HIV/AIDS, conducting walkthroughs of the internal control environment, and reviewing documentation to assess controls and gain an understanding of the policy and procedures used in administering this program;

- selecting a sample of 11 contractors from the various types of contractors used by Health to assist in administering this program and obtaining and reviewing all invoices submitted to Health for services rendered between July 1, 2007 through June 30, 2008 in order to determine whether the expenditures were in accordance with contract/agreement terms and whether adequate documentation existed to support the expenditure:

- conducting an on-site visit at a contractor, including interviewing management and staff to gain an understanding of how the contractor compiles the summary invoices that are submitted to Health for payment and what documentation the contractor receives from its subcontractors;

- selecting ten subcontractors from the contractor at which we performed the on-site visit and requesting a sample of monthly expenditures from July 2007 through June 2008, which we reviewed and tested for proper supporting documentation and the propriety of the expenditures;

- obtaining a listing of the on-site monitoring visits conducted by Health between July 1, 2006 through June 30, 2009 and selecting and obtaining one on-site monitoring checklist from the three main types of contractors to determine if annual on-site visits were being performed and whether the checklists were sufficient; and

- obtaining Health's annual progress reports from 2005 through 2008 in order to evaluate the HIV/AIDS performance indicators to determine Health's effectiveness in identifying new individuals who have HIV/AIDS, thereby increasing the proportion of individuals that know they are infected and getting them to appropriate prevention, care, and treatment services.

Finding One

The Department of Health's Failure to Oversee How HIV/AIDS Prevention Program Money was Spent Resulted in More Than $700,000 of Waste, Abuse, and Potential Fraud

Each year, the General Assembly appropriates state and federal dollars to support the HIV/AIDS Prevention Program (program) administered by the Department of Health (Health). Program activities generally include counseling, testing, and education. Additionally, significant effort is made to determine which high-risk populations should be targeted. To accomplish these activities for the 2007-08 fiscal year, Health executed more than 60 contracts/agreements with various entities (contractors), including County/Municipal Health Departments (CMHD), HIV Planning Coalitions (coalition), fee-for-service providers, and others, who perform counseling, testing, and other services for high-risk populations. During the 2007-08 fiscal year, Health spent approximately $13.3 million. Our audit included follow-up procedures through December 2009.

The program, administered by Health's Division of HIV/AIDS, assigns project officers to oversee and monitor these contracts. In order to properly administer the program, the department must ensure that the contractors and subcontractors are efficiently and effectively performing their contracted responsibilities. This includes adequately monitoring the contractors' and subcontractors' activities as well as verifying how the contractors and subcontractors are spending Health's funding through review of source expenditure documentation. Funding provided to contractors and subcontractors must only be spent on products and services that are necessary and directly related to HIV/AIDS prevention.

Based on our test work and interviews with division managers and project officers, we found a significant lack of concern as to how program money is spent, which resulted in more than $700,000 of waste, abuse, and potential fraud. Our conclusion is based on the following: 1) there is no requirement for contractors to submit source documentation to support invoices submitted to Health for payment; 2) project officers perform a cursory review of what is provided to ensure that invoice backup documentation amounts agree to summary invoice amounts; 3) there is no detailed review of expenditure documentation of the contractor; and 4) Health relies on the contractors to monitor the subcontractors' services and corresponding expenditures.

Finding No. 1

In addition to the above deficiencies, our interviews found that the project officers encourage the contractors to spend all of the money contracted to them. For example, when project officers review contractor invoices, one of the items they look for is whether the contractors' expenditures to date are on target with meeting their budgets. In other words, project officers are concerned when it appears that contractors may not spend all the contract money. According to project officers, contractors who do not spend their contracted money are not considered as having fulfilled their contracted responsibilities. We do not agree with this perspective. The spending of contract monies should not be the priority over the quality of services provided. There is a disconnect between how much a contractor bills Health and what services the contractor is providing. In addition, although Health receives reports and data with respect to the output of what services the contractors have provided, there is no correlation made between the two. Without this connection, contractors are not held accountable for how they spend Health's money. As long as the contractor fulfills its responsibilities, Health appears to not be concerned as to how contractors spend taxpayer money. However, this attitude increases the risk that contractors may invoice Health for expenditures not related to the contracted services or may allow the contractors to spend the Commonwealth's money inappropriately.

As part of this audit, of more than 60 contracts/agreements, we selected 11 and examined related expenditure summary documentation. The amount of contractors' invoices sampled totaled approximately $8.9 million. Of the $8.9 million, we requested detailed source documentation from various contractors and subcontractors to support expenditures of $2,019,184. The results of our detailed subcontractors and contractors testing of $774,161 and $1,245,023, respectively, are disclosed below in sections 1 and 2.

Finding No. 1

1. <u>Our review of subcontractors' supporting documentation totaling $774,161 found waste, abuse, and potential fraud of $502,135 (65 percent):</u>

Based on our review of summary-type invoices submitted by the contractors and our interviews with Health personnel, it became necessary to obtain and review the source documentation for some of the subcontractors' invoices. According to Health management, it is the contractors' responsibility to monitor the activities and expenditures of the subcontractors. Additionally, Health does not require contractors to submit source documentation with their invoices. It is acceptable to Health for contractors to submit only general ledger printout information rather than actual receipts. As a result, we selected and tested a sample of monthly expenditures from 10 related subcontractors totaling $774,161 for proper supporting documentation and propriety of the expenditure. Because Health did not have this documentation, in November 2009, we requested the subcontractor source documentation from the respective contractor to support the reimbursement by Health. The following table shows the amount tested and the waste, abuse, and potential fraud found:

Total Invoice Amount Tested for 10 Subcontractors	Inappropriate Expenditures	Inadequate Support Provided	No Support Provided	Total Waste, Abuse, and Potential Fraud
$774,161	$38,131 (5%)	$399,828 (52%)	$64,176 (8%)	$502,135 (65%)

The following describes the deficiencies in more detail:

- <u>Inappropriate expenditures totaling $38,131</u>

  We reviewed the contracts for each subcontractor selected and found no specific details as to how the money was to be spent. Additionally, with state agencies being under severe budget constraints due to current economic conditions, fiscal prudence must be heightened by agencies' management as well as contractors who perform and deliver services on behalf of the Commonwealth. Furthermore, with the advancement of technology, such as the Internet (i.e., Health website, social media, and e-mail), there are far more cost-effective ways to market HIV/AIDS prevention. As a result, we found expenditures totaling $38,131 from four subcontractors that appeared to indicate waste or abuse, including the following:

- **$7,465 for Water Park Trip:** Four buses were chartered totaling $3,190 and 171 water park tickets were purchased totaling $4,275 to take college students to a water park on July 26, 2008 in Wildwood, New Jersey. Students were provided this trip because they attended a three-hour HIV awareness program and were required to create posters and to make presentations at a picnic at the water park. In an e-mail responding to the college director requesting this trip, the subcontractor's manager wrote, "While I will see to having the checks executed for this event, I want to make clear these types of activities do not represent HIV awareness and prevention in the true spirit of the intentions of this funding. . . . We are not interested in providing entertainment for the students in the guise of HIV prevention." We agree with the assessment and take exception that this event totaling $7,465 was paid with Commonwealth funds. In addition, these expenditures were incurred in July 2008, but identified as June 2008 expenditures by the contractor in the summary invoice to Health. We take exception to this deception because the contract period ended June 30, 2008.

- **$13,023 for T-shirts:** 2,360 t-shirts were purchased, including 1,900 for a university. T-shirts are not necessary and are a waste of taxpayer funds. In addition, one invoice totaling $4,862 was dated September 2008, which is three months after the contract end date of June 30, 2008. Expenditures incurred after the contract period should not have been included with June 2008 summary invoices to Health. Also, the documentation provided to support the purchase of 310 t-shirts was a quote. A written quote/proposal does not ensure that services were incurred and paid. These are indications of abuse.

- **$2,100 for Graduation Rewards:** One contractor issued $100 checks to 21 individuals who completed TEACH Outside, an education program open to people living with HIV who have been recently incarcerated. We do not agree that awarding cash to individuals who participate in a program is an appropriate use of Commonwealth funding.

- **$5,700 for Gift Cards:** One contractor requested $5,700 for gift cards for 57 college students who were expected to be peer educators at a university. We do not agree that awarding individuals with upfront compensation is an appropriate use of Commonwealth funding. Additionally, the request was an internal document, which did not provide assurance that the expenditures were incurred.

- **$2,819 for Food:** Most notable was $2,240 for three HIV/AIDS talks at a university. Food included pizza, wings, pasta, salad, and soda. In addition, $128 paid for a client lunch that included alcoholic beverages totaling $27. Although the subcontractor appeared to conceal the purchased alcohol, the tax related to the alcohol was not concealed; therefore, we were able to calculate the alcohol amount. Food and alcohol should not be paid for with Commonwealth funds.

- **$5,889 for Party and Giveaway Items:** These included facility security deposit for an event, disc jockey services for two events at a university, a dance trophy, lanyards, pens, awards, palm cards, basketball post cards, manicure sets, totes, tea and lotion packs, helium kits, balloon weights, frames, and tablecloths. These items are not necessary to promote HIV/AIDS prevention.

- **$1,135 for Personal Items:** Several invoices were submitted for items including beds, baby items, clothing, etc.

- Inadequate support provided totaling $399,828

  Of the invoices we tested for the 10 subcontractors, we found that four failed to provide adequate documentation to ensure that the funds were spent appropriately. Because Health reimburses the contractor and the contractor pays the subcontractors based on summary information, we requested source documentation from the subcontractor. Because the documentation provided by the subcontractor, which should be accountable for substantiating the expenditures, did not validate the expenditures, this inadequate support indicates a heightened risk of fraud, as noted below:

  - An advance payment totaling $45,454 was paid by a contractor to a subcontractor in February 2009 for services that were to be rendered between January and June 2008. We question how an advance can be paid subsequent to the period in which execution was to occur. Additionally, no documentation was provided to demonstrate that actual services were rendered and expenditures incurred between January and June 2008. As a result, we take exception to Health reimbursing a contractor for services that were not rendered and incurred by June 30, 2008, the end of the contract period.

Finding No. 1

- 13 advances totaling $221,819 were paid to various subcontractors without any documentation to demonstrate that services were rendered and expenditures incurred by June 2008. Seven of these advances were paid in June 2008 (at the end of the contract period), and the remaining six totaling $145,228 were paid in July or August 2008. Without documentation showing that services were rendered and expenditures incurred by June 2008, we consider this an example of potential fraud and should not have been reimbursed by Health.

- Two internal memos requesting funding were provided as support for payments totaling $49,036. One undated memo requests $2,500 to provide a two-day course to provider organizations regarding HIV and the other undated memo indicates that $46,536 was allocated for a research project. There were no time periods on the memos as to when these activities were to commence. Additionally, no documentation was provided to show how and when that money was spent. As a result, these situations are considered potential fraud and should not have been paid by Health.

- Four quotes/proposals totaling $25,877 were provided as expenditure support for computer equipment, workstations, painting services, and services to conduct the SafeGuards Project, which promotes the health of lesbian, gay, bisexual, and transgender individuals. A written quote/proposal does not ensure that services were incurred and paid and, therefore, should not have been reimbursed by Health.

- Lack of or insufficient source documentation totaling $57,642. The subcontractors provided only a journal entry or cost allocation sheet without providing the source documentation to support the expenditures. Additionally, we found that the support provided for payroll did not include the hourly rates, which precluded us from calculating salary costs. Without sufficient support, we could not determine whether the Commonwealth's money was spent properly.

- No support provided totaling $64,176

  Of the 10 subcontractors tested, eight did not submit documentation to support expenditures totaling $64,176. Again, lack of documentation is an indicator of potential fraud. In many instances, no support was provided for a particular budget category, such as rent, travel, or communications. Without documentation, we could not determine whether the Commonwealth's money was spent properly.

These deficiencies, totaling $502,135 and representing 65 percent of what was tested, demonstrate a lack of oversight as to how HIV prevention money is being utilized. Health states that it relies on the contractors to monitor the subcontractors' activities and invoices. Health needs to strengthen what it does to ensure that subcontractors are using HIV prevention money effectively and efficiently, without waste, abuse, and potential fraud.

2. Health paid a contractor for duplicate invoices totaling $223,000 (19 percent) of the contractor's total invoices of $1,245,023:

As part of our audit, we conducted an on-site visit to a contractor's office to determine how the contractor prepared its invoices. Prior to going on-site, we obtained the contractor's monthly invoices from Health's records for services rendered for one contract whose expenditures totaled $1,245,023. These invoices generally included summary information from the subcontractors. Based on our review of this documentation, we found that the June 2008 request for payment was overstated by $223,000 because it included 45 duplicate invoices. In some cases, documentation representing a subcontractor's invoice was submitted to Health three times. For example, an original subcontractor's invoice totaling $1,179 was submitted to Health in February 2008 and then it was submitted two additional times in June 2008. Although Health's project officer found some discrepancies during the review of the June 2008 invoice, the above noted duplication was not discovered and these duplicate invoices were paid by Health. In October and December 2009, we submitted these potential duplicate invoices to Health, which indicated that it believed that the auditors' conclusion was accurate.

Finding No. 1

Because Health does not require source documentation and could not explain why and how the duplication occurred, on November 16 – 17, 2009, we went to the contractor's office and conducted several interviews and requested and obtained documentation. Contractor management acknowledged that it was not aware that the duplication had occurred. We presented several samples of the types of duplication that we had found and management agreed that these were duplicated invoices.

We were concerned that contractor management may have purposely duplicated the subcontractors' summary information invoices in order to inflate the expenditures invoiced to Health and receive the entire contracted amount within the time limits allowed per the contract. According to the payment provisions, the contractor

> shall submit monthly invoices within 30 days from the last day of the month within which the work is performed. The final invoice shall be submitted within 45 days of the Contract's termination date. [Health] will neither honor nor be liable for invoices not submitted in compliance with the time requirements in this paragraph unless [Health] agrees to an extension of these requirements in writing. The Contractor shall be reimbursed only for services acceptable to [Health].

All payments for this contract were paid by Health to the contractor by September 2008.

In response to our inquiry as to how and why this duplication occurred, contractor management stated that a former temporary employee must have compiled the information and the duplicate invoices that were sent to Health for payment. Contractor management did not know why the former employee would have duplicated invoices because the employee could not personally benefit. Additionally, management stated that, although the former employee had only been working there for a few months, the employee knew what to do and would have consciously known that these were duplicate invoices. Furthermore, both the former employee's supervisor and manager stated that neither one ever told him to duplicate invoices in order for the contractor to invoice Health the remaining contract balance.

With respect to why contractor management did not detect these duplicate invoices, the supervisor indicated that he only performed a cursory review of the information that went to Health. In addition, the manager stated that he did not review the information. Finally, we spoke to the contractor's budget officer, who signs and approves the invoices. She stated that no one in her office, including herself, reviews these invoices and the supporting documentation. Although these statements indicate a breakdown of management controls, they still did not explain why the duplication occurred.

Consequently, with the assistance of our department's Office of Special Investigations, we were able to locate and interview the former contractor employee on December 30, 2009. The employee stated that he was a budget analyst who was charged with preparing the monthly invoices that were sent to Health for payment, including the June 2008 request for payment. He was responsible for processing whatever subcontractors' invoices were given to him by a clerk, who he could not identify. He stated that he did not duplicate any invoices in order to inflate the invoice amount. Additionally, if he noticed that there were duplicate invoices, he would have excluded them from the request for payment, although he indicated that the employees were under short deadlines. This explanation now implicated a clerk who allegedly duplicated the invoices, which is not what had been indicated by contractor management.

To complicate matters, subsequent to our on-site visit, the contractor sent us a letter acknowledging that duplicate invoices were sent to Health. However, management also indicated that it had located additional subcontractor's invoices that were never sent to Health for reimbursement. Therefore, according to contractor management, these invoices will offset any overpayments charged to Health due to duplicate invoices.

As a result of contradictions, questionable responses, and other related concerns, we will forward our report and concerns to appropriate law enforcement authorities. Also, Health management needs to assess the control environment at the contractor and subcontractor level and take appropriate corrective action.

3. <u>Program controls were significantly deficient:</u>

Based on performing audit procedures and conducting various interviews with project officers and division managers, we found the following weaknesses from our overall review of documentation submitted to Health:

- There is no requirement for contractors to submit related source documentation of their subcontractors to Health prior to payment. Health requires the contractors to submit a template summary invoice provided to them in the contract. In addition, Health requires the contractor to submit a general ledger printout that agrees with the summary invoice. This level of information does not adequately allow for Health to determine the propriety of the expenditures and whether they were incurred for their intended purpose.

- Health's project officers perform only a cursory review of the information that is provided to them. Their review is limited to ensuring that the information provided agrees to the summary invoice. In addition, as disclosed previously concerning duplicate invoices, although the project officers were satisfied that the information provided agreed with the summary invoice, they failed to detect that several of these documents had either been previously submitted for payment during a different month or had been submitted more than once for payment within the same monthly period.

- There is no periodic review performed by Health's project officer to include a detail review of expenditure documentation during on-site visits of the contractors.

- There is no requirement contained in the contracts that require the contractors to obtain detail source documentation from respective subcontractors.

These systemic control weaknesses and inadequate safeguards provide evidence that potentially all County/Municipal Health Department and HIV Planning Coalition invoices submitted by contractors to Health may contain wasteful and abusive expenditures. This lack of oversight, along with Health encouraging all contractors to spend all contracted funds, provides an environment that leads to waste, abuse, and potential fraud and can lead to an inefficient and ineffective program.

Recommendations:

We recommend that Health:

1. Seek reimbursement of $502,135 from the contractors with respect to expenditures related to waste, abuse, and potential fraud;

2. Seek reimbursement of $223,000 from the contractor with respect to duplicate invoices;

3. Immediately send internal auditors to the selected contractor in which the duplicated invoices were found in order to assess the control environment and take appropriate corrective action;

4. Require contractors to provide detailed source documentation along with the summary invoice to Health;

5. Require contractors to perform a detail review of applicable subcontractors' invoices;

6. Develop policies and procedures for project officers to follow when reviewing contractor invoices;

7. Require project officers within the Division of HIV/AIDS to perform a detailed review of the invoice documentation submitted by the contractors to include looking for duplicate invoices, inappropriate expenditures, and expenditures lacking adequate documentation; and

8. Reconcile services performed to expenditures incurred for reasonableness and in compliance with contract terms.

Finding Two

Improvement is Needed in the Department of Health's Monitoring of the HIV/AIDS Prevention Program

Project officers within the Division of HIV/AIDS are responsible for monitoring the activities of the HIV prevention contractors. According to management, monitoring efforts generally include reviewing contractor monthly invoices, conducting annual on-site visits, reviewing status reports provided by the contractors, and reviewing the HIV/AIDS data received. An effective system of monitoring would include written policies and procedures, adequate on-site monitoring of contractors and subcontractors, and documented evidence that monitoring occurred. Based on our review of related documentation and interviews with management and project officers, we noted the following weaknesses that need to be improved:

- **Lack of written policies and procedures**

  Management has not established written policies and procedures on how project officers are to monitor contracts, including reviewing contractor invoices. Project officers indicated that they receive only on-the-job training by other project officers or the project officer's manager. A strong system of internal control includes management developing written policies and procedures to ensure that management's goals and objectives are communicated to Health personnel. These policies and procedures would include what detailed procedures are to be performed, when or how often they are to be performed, what documentation needs to be maintained to demonstrate that the procedures were performed and the conclusions reached, and identification of the mechanism for communicating the results of the monitoring to management. Failing to develop policies and procedures may result in Health paying for inappropriate expenditures or may result in Health improperly concluding on the monitoring results of the contractors.

- **On-site monitoring needs to be improved**

  Although management provided a separate monitoring checklist for County/Municipal Health Departments (CMHD), HIV Planning Coalitions, and fee-for-service providers, we noted the following areas in need of improvement:

- Checklist documentation needs to be enhanced. Project officers need to identify how they determined the answers to the questions on the checklist. Many of the questions noted on the checklists are yes/no questions. For example, "Are invoices checked by appropriate personnel?" The project officer will either check the yes or no column. However, the project officer does not identify on the checklist how he/she determined the answer to that question. As a result, we could not determine, in this example, whether the project officer heard that information as part of an interview with a contractor employee or whether the project officer performed a procedure to determine the answer. Failing to identify the type and extent of evidence used to determine the answer precludes a supervisor from ensuring that the evidence used was sufficient to make the correct conclusion.

- The on-site monitoring form should require the selection of a sample of source invoice documentation to ensure that the expenditures are appropriate, adequately supported, and in compliance with the contracts. Additional information on this concern is found in Finding One.

- On-site visits were not conducted annually for all contractors. Health does not require contractor on-site visits. Management indicated that project officers try to perform contractor on-site visits annually. However, based on site visit schedules provided by Health, project officers did not complete three of 10 on-site visits to CMHD contractors during the July 1, 2007 through June 30, 2008 period. One of the three, the Philadelphia Department of Public Health, did not have any on-site visits between July 1, 2006 and June 30, 2009. According to the project officer, this contractor has 37 analysts to monitor the contract's activities and believes that an on-site visit is not necessary. In addition, we noted that five fee-for-service providers did not have an on-site visit conducted during the July 1, 2007 through June 30, 2008 period. We believe that all contractors should have an annual on-site visit. Failing to annually conduct on-site visits increases the risk that contractors are not adequately performing their contractor responsibilities, which reduces the effectiveness of this program.

Finding No. 2

- **Review of data needs to be documented**

  The project officers obtain data reports that include various statistics, such as the number of HIV tests performed, new HIV positives confirmed, and demographics as to who was tested. Although the project officers stated that they review the data for reasonableness with respect to various reports submitted by the contractors, there is no documentation stating that this comparison is performed, when it was performed, and what conclusions were reached. Because Health utilizes this information within its own reports and utilizes this information to assess whether the contractors are meeting contract specifications, it is important to document the assessment of the data. Failing to document this procedure results in management not being assured that this procedure is being performed in a timely manner.

Recommendations: We recommend that Health:

9. Develop written policies and procedures for monitoring HIV/AIDS contracts. Procedures should include when and how often they are to be performed, what documentation needs to maintained, and who is to receive the results of the monitoring;

10. Require project officers to document by what method the project officers' conclusions were reached on the on-site monitoring checklist. The documentation should include the name and title of the individual providing the information and/or details as to what procedures were performed, such as how many were reviewed or when did the observation occur; and

11. Require all contractors to have an annual on-site visit to ensure that they are complying with their contract terms and properly invoicing Health.

Department's Response and Auditors' Conclusions

What follows on subsequent pages is the response of the Department of Health to our findings and recommendations. Our auditors' conclusions follow each response.

We are confident that the recommendations that resulted from our findings, if fully implemented by management, will strengthen the department's policies, controls, and oversight of the HIV/AIDS Prevention Program and will ensure a responsible allocation of taxpayer dollars, while continuing to provide access to important information that is necessary to maintain the health and well-being of our communities.

pennsylvania
DEPARTMENT OF HEALTH

717-787-6325

April 7, 2010

The Honorable Jack Wagner
Auditor General
Department of the Auditor General
Harrisburg, PA 17120-0018

Dear Mr. Wagner,

The Department of Health has reviewed the special performance draft findings and recommendations pertaining to the HIV/AIDS Prevention Program. We take the findings of the Auditor General very seriously regarding this incredibly critical program and we welcome any and all recommendations that will improve the program(s) and maximize its effectiveness. It is in this spirit that we are pleased that of eleven grants tested, the Auditor General found that ten of them appear to be fiscally responsible. While not privy to the exact records reviewed for the audit, via telephone on April 5, 2010, Mr. Randy Marchi, Director, Bureau of Departmental Audits, confirmed that the findings presented relate solely to one contractor and its subcontractors.

The Department also appreciates the recommendations set forth for improvements to the monitoring of the HIV/AIDS Prevention Program. Mr. Marchi did also confirm during the aforementioned telephone conversation, that though the findings were based on one contractor, the recommendations should apply to all. To the extent we agree with the recommendations and they transfer readily to the other contracts and agreements, we wholeheartedly agree.

As stated above, though ten of the eleven HIV/AIDS contractors tested have resulted in no findings, it is the position of the Department of Health, for all of our grants and programs, that one contractor lacking clear policy and procedure is one too many. As such, the Department was especially anxious to review the Auditor General's recommendations and institutionalize those that will further maximize the program. The following response outlines policy and procedural practices that may already be in place as well as those that are going to be put into place in the near future.

We look forward to working with the Auditor General on ensuring these practices become standard operating procedure and are continually updated to reflect the needs of the HIV/AIDS Program and the people it serves.

Sincerely,

Terri Matio/bad

Terri Matio, Director
Bureau of Administrative and Financial Services

Attachment

DEPARTMENT OF HEALTH'S
RESPONSE TO AUDIT FINDINGS/RECOMMENDATIONS

OVERVIEW:

The Department of Health (DOH) has reviewed the special performance audit draft findings and recommendations pertaining to the HIV/AIDS Prevention Program. We are pleased that of 11 grants tested the Auditor General found that 10 of them appear to be fiscally responsible. While not privy to the exact records reviewed for the audit, via telephone on April 5, 2010, Mr. Randy Marchi Director, Bureau of Departmental Audits confirmed to Terri Matio, Finance Director, Department of Health that the findings presented relate solely to one contractor and its subcontractors. Though proud an overwhelming majority of our contracts tested resulted in no findings, this statement is offered only for clarity of DOH responses to the findings contained herein. DOH firmly believes that one contract exhibiting fiscal weaknesses is one too many.

The DOH also appreciates the recommendations set forth under Finding Two for improvements in the monitoring of contractors. While the Division of HIV/AIDS believes it has many monitoring and evaluation activities in place, we view the recommendations as an opportunity to address deficiencies and enhance current monitoring and evaluation activities.

The following responses provide the corrective measures that will be taken, to address the Auditor General's findings and recommendations.

Auditors' Conclusion: With respect to the statements made by Health in its transmittal letter and response overview regarding a brief telephone conversation between Terri Matio and Randall Marchi on April 5, 2010, we want to clarify the following:

- Ms. Matio mentions Mr. Marchi's assertion that, "the findings presented relate solely to one contractor and its subcontractors." Ms. Matio's recounting of the aforementioned statement overemphasizes a brief telephone conversation, in which it was simply explained that the waste and abuse noted in Finding One related to one contractor and its subcontractors. Consequently, her reference to the conversation does not accurately reflect the seriousness of our findings as conveyed to management.

  We refer Ms. Matio and management to the actual report. Section 3 in Finding One on page 19 as well as Finding Two on page 21 do not relate solely to one contractor and its subcontractors; they relate to the entire program. As indicated by the title of section 3, Program controls were significantly deficient, this section represents systemic problems noted during our testing of the 11 contracts. For example, we explain in the first bullet that there is no requirement for contractors to submit related source documentation of their subcontractors to Health prior to payment. This deficiency potentially affects all contractors, not just the one contractor. However, the finding concentrated on the root cause of the deficiency, which is that Health does not require this information to be submitted.

- Ms. Matio also mentions that Mr. Marchi indicated that, of the eleven grants tested, we found that ten of them appear to be fiscally responsible. Ms. Matio's conclusion is not correct. Finding One does not state nor imply this conclusion.

  We again refer Ms. Matio and management to the actual report. In Finding One, we indicate on page 11 that we requested source documentation totaling $2 million and we note the results in sections 1 and 2 of Finding One. For the remaining contracts, we limited our testing to the invoice documentation provided to Health for payment. We did not request additional detail source documentation for the remaining contracts. After determining that source documentation was not provided to Health, (i.e., a systemic problem), we decided to obtain a sample of source documentation from one contractor, including obtaining a sample of source documentation from a sample of subcontractors from that contractor. Our results from the one contractor along with the systemic issues noted in Findings One and Two indicate that Health, by not requiring and reviewing source documentation, by not monitoring subcontractors' activity, etc., would not be detecting similar types of deficiencies noted in the report with all aspects of the program.

Finding One: Failure to Oversee How HIV/AIDS Prevention Program Money was Spent Resulted in More Than $700,000 of Waste and Abuse

1. <u>Review of subcontractors' supporting documentation totaling $774,161 found waste and abuse of $502,135 (65 percent):</u>

Audit Recommendation #1
Seek reimbursement of $502,135 from the contractors with respect to expenditures related to waste and fraud.

- <u>Inappropriate expenditures totaling $38,131</u>

DOH Response: DOH takes exception to the inference that these expenditures are waste and abuse. The Centers for Disease Control and Prevention (CDC) recommend the use of incentives as a means to recruit high-risk individuals into prevention activities and to retain them in services. Historically, the CDC and the DOH have deferred to the local jurisdiction to determine appropriate and effective incentives and how they will be implemented. Although the DOH has in the past and may continue to approve of the use of non-cash incentives in certain cases, effective immediately, DOH will create an incentive approval form and process that requires DOH pre-approval before purchase. Additionally, DOH will develop written guidelines clarifying DOH's accepted use of incentives and ensure all contractors review and sign off; and remind all contractors and subcontractors that the use of funds for cash incentives and alcohol is prohibited. Guidance will also be issued to all contractors and subcontractors restating that the expenditure of contract funds for services that occurred prior to the effective date or following the termination date of the contract is not allowable. Contractors will be required to recoup any funds that were applied to cash incentives, alcohol, and/or paid before date of service.

Auditors' Conclusion: We acknowledge and recognize that incentives may be a means to recruit high-risk individuals into prevention activities. However, as indicated in the finding, due to current economic conditions within this Commonwealth, fiscal prudence must be heightened by all state agencies as well as contractors who perform and deliver services on behalf of the Commonwealth. Furthermore, with the advancement of technology, such as the Internet (i.e., Health website, social media, and e-mail), there are far more cost-effective ways to market HIV/AIDS prevention. As a result, discretionary spending should not be occurring. Instead, state agencies need to maximize their limited funding in order to efficiently and effectively administer programs.

- Inadequate support provided totaling $399,828

DOH Response: DOH agrees that payments for services should be based on the receipt of an invoice, and not on the basis of a memo or written quote/proposal.

While not privy to the cases in question, the DOH will complete an additional and comprehensive review of the contractor and the subcontractors to verify adequate backup documentation was provided to support the expenditures in every case. Payment of invoices with inadequate documentation will be requested to be returned. DOH will ensure that payment of future invoices with inadequate documentation will be denied.

Effective immediately, as part of the ongoing monitoring site visits of HIV contractors, the DOH project officers will ensure that random sample of monthly expenditures and source documentation from subcontractors will be reviewed to determine if the supporting documentation is adequate. This will be added to the checklist for all monitoring visits. Finally, DOH will work with the Commonwealth's newly created Bureau of Audits, Office of the Budget, to create and administer a financial control workshop for all of its contractors and their subcontractors. This workshop will become part of the requirements all contractors must meet in order to receive a state HIV/AIDS grant.

Auditors' Conclusion: We commend Health for intending to conduct a comprehensive review of the payment documentation for the contractor and its subcontractors that are in question and to seek repayment for invoices without sufficient documentation. Additionally, we agree with Health's plans to expand its monitoring site visits to include reviewing a sample of subcontractor invoices as part of its monitoring checklists.

Regarding Health's comment that it was "not privy to the cases in question," we must note that, because Health did not maintain detailed receipts, Health instructed us to go directly to the contractors. During the audit, we informed Health regarding the duplicate payment cases. In addition, during our on-site visit, the contractor stated that it was in contact with Health. Therefore, Health had access to all case information pertaining to this audit.

- No support provided totaling $64,176

DOH Response: DOH agrees that proper documentation is essential to support all expenditures.

While not privy to the cases in question, the DOH will complete an additional and comprehensive review of the contractor and the subcontractors to verify adequate backup documentation was provided to support the expenditures in every case. Payment of invoices with inadequate documentation will be requested to be returned. DOH will ensure that payment of future invoices with inadequate documentation will be denied.

Effective immediately, as part of the ongoing monitoring site visits of HIV contractors, the DOH project officers will ensure that random sample of monthly expenditures and source documentation from subcontractors will be reviewed to determine if the supporting documentation is adequate. This will be added to the checklist for all monitoring visits.

Auditors' Conclusion: We again commend Health for immediately initiating improvements to monitoring site visits at the contractors and for undertaking a comprehensive review of the payment documentation for the contractor and subcontractors in question. Again, see previous auditors' conclusion regarding Health's comment that is was "not privy to the cases in question."

2. Health paid a grantee for duplicate invoices totaling $223,000 (19 percent) of the grantee's total invoices of $1,245,023:

Audit Recommendation # 2
Seek reimbursement of $233,000 from the contractor with respect to duplicate invoices.

DOH Response: Effective April 1, 2010, all invoices submitted by the contractor will be assigned a unique identifier and the system has been updated at the DOH level to reject any invoice containing the same identifier. The DOH will work with the contractor to ensure overpayments are adjusted.

Auditors' Conclusion: The stated additional controls should assist Health in identifying potential duplicate invoices. Furthermore, we commend Health's efforts to ensure that overpayments are adjusted.

Audit Recommendation # 3
Immediately send internal auditors to the selected contractor in which the duplicated invoices were found in order to assess the control environment and take appropriate corrective action.

DOH Response: DOH will request that the Bureau of Audits, Office of the Budget send auditors to the selected contractor in which the duplicated invoices were found.

Auditors' Conclusion: Health concurs with our recommendation.

3. **Program controls were significantly deficient:**

Audit Recommendation # 4

Require contractors to provide detailed source documentation along with the summary invoice to health.

DOH Response: DOH will require all contractors to provide a random selection of subcontractor source documentation along with the summary invoice.

Auditors' Conclusion: We acknowledge Health's intended corrective action. With respect to management's approach in reviewing a random selection of subcontractor source documentation, we recommend that Health independently identify and select which subcontractor source documentation should be provided to support the contractor's summary invoice.

Audit Recommendation # 5

Require contractors to perform a detailed review of applicable subcontractors' invoices.

DOH Response: DOH will require all contractors to perform a detailed review of applicable subcontractors' invoices submitted to date as well as going forward.

Auditors' Conclusion: Health concurs with our recommendation.

Audit Recommendation # 6

Develop (written) policies and procedures for project officers to follow when reviewing contractor invoices.

DOH Response: DOH does maintain written policies and procedures however we agree that there is a need to both update current versions and create new task and grant type (i.e. County grants, Consortia grants, etc.) specific versions.

DOH maintains an Operations Manual that covers the processing of invoices, grant monitoring, quarterly financial reports, prevention process monitoring forms, and a host of other responsibilities. A copy of this manual was made available for the auditors' review.

Where written policies exist, they will be enhanced; where written policies do not exist they will be developed.

Auditors' Conclusion: We commend Health for acknowledging that written policies and procedures need to be developed or revised. With respect to the Operations Manual noted in Health's response, we reviewed this manual and determined that these procedures did not apply to how the project officers review invoices or monitor contracts. Rather, this manual was guidance for contractors to use in operating the program.

Audit Recommendation #7
Require project officers within the Division of HIV/AIDS to perform a detail review of the invoice documentation submitted by the contractors to include looking for duplicate invoices, inappropriate expenditures, and expenditures lacking adequate documentation.

DOH Response: DOH does in fact require project officers within the Division of HIV/AIDS to perform a detailed review of the invoice documentation submitted by the contractors to include looking for duplicate invoices, inappropriate expenditures, and expenditures lacking adequate documentation. Quarterly, the DOH project officer receives and reviews a complete copy of each of the monitoring reports of the quarterly on-site monitoring visits conducted by the grantee program analysts. DOH acknowledges that there is always room for improvement in review. DOH will develop a new review procedure that will ensure that the entire life cycle of expenditures from approval to documentation to payment are represented.

The DOH will send auditors to complete an additional and comprehensive review of the contractor and the subcontractors to verify adequate backup documentation was provided to support the expenditures in every case. DOH project officers will ensure that payment of future invoices with inadequate, inappropriate or duplicate documentation will be denied.

This invoice review process will take place at the contractor site as well as at DOH. The review will be retrospective and will then become part of the monthly review process moving forward.

Auditors' Conclusion: Although we agree with the corrective action identified in its response, we must take issue with the comment that project officers perform a detailed review of the invoices. As indicated in the finding, the project officers failed to recognize that more than $223,000 of duplicate invoices was submitted and ultimately paid by Health. Furthermore, in most cases, documentation is not provided by contractors that would enable the project officer to conduct a detailed review. We hope that the added procedures to be developed by management will increase the detection of duplicate invoices, inappropriate expenditures, and inadequate documentation.

Audit Recommendation # 8
Reconcile services performed to expenditures incurred for reasonableness and in compliance with contract terms.

DOH Response: DOH does currently reconcile services performed to expenditures incurred for reasonableness and compliance with contract terms however the methodology differs depending on the grant type. Building on the strengths of our current procedures, DOH will develop a uniform performance and goal tracking form to be used across all grant types.

Auditors' Conclusion: Although Health claims that it reconciles services performed to expenditures incurred for reasonable and compliance with contract terms, based on our interviews and walkthroughs, it is not performed at the time when contractors' invoices are reviewed for payment. As noted in the finding, there is a disconnect between how much a contractor bills Health and what services the contractor is providing. Without this connection, contractors may be fulfilling their responsibilities, but also charging Health for inappropriate expenditures. We hope Health's noted corrective action will achieve the intent of this recommendation.

- There is no requirement for contractors to submit related source documentation for their subcontractors to DOH prior to payment.

DOH Response: DOH contracts/grants and subcontracts require that source documentation be maintained on file and available for review per the Standard General Terms and Conditions (SGTC's). DOH will issue clear guidance and direction to all contractors that they are expected and required, per the contract, to ensure that they and their subcontractors are providing, storing and able to produce their source documentation at any time. Subcontractor source documentation is expected to be maintained at the service agency (subcontractor) level and should be available for contractor review upon request.

SGTC language

FISCAL AND PROGRAM RECORDS
C. Contractor agrees to maintain books, records, documents, sub-contracts and other evidence pertaining to the costs and expenses of this Agreement (hereinafter referred to in this paragraph 9 as "the records"), to the extent and in such detail as will properly reflect all net costs, direct and indirect, of labor, materials, equipment, supplies and services and other costs and expenses of whatever nature for which reimbursement is claimed under the provisions of this contract. If Contractor is not a public body, Contractor agrees to maintain books, records, documents and other evidence in accordance with accounting procedures and practices which meet generally accepted accounting principles.

Effective immediately, as part of the processing of invoices for HIV contractors, the DOH project officers will ensure that random samples of monthly expenditure source documentation from subcontractors will be submitted and reviewed prior to payment.

Auditors' Conclusion: As previously stated, we acknowledge Health's intended corrective action. With respect to management's approach in reviewing a random selection of subcontractor source documentation, we recommend that Health independently identify and select which subcontractor source documentation should be provided to support the contractor's summary invoice.

- DOH project officers perform only a cursory review of the information that is provided to them.

  DOH Response: The DOH disagrees with the audit finding language suggesting that the DOH is performing only a cursory review of contract invoice expenditure documentation. However, the DOH will build upon its current financial, activity, source, and budget review process and develop new submittal and review policy and procedures that cover the life cycle of all grant payments from approval, to invoice, to payment.

  Auditors' Conclusion: As previously stated, although we agree with the corrective action identified in its response, we must take issue with the comment that project officers perform a detailed review of the invoices. As indicated in the finding, the project officers failed to recognize that more than $223,000 of duplicate invoices was submitted and ultimately paid by Health. Furthermore, in most cases, documentation is not provided by contractors that would enable the project officer to conduct a detailed review. We hope that the added procedures to be developed by management will increase the detection of duplicate invoices, inappropriate expenditures, and inadequate documentation.

- There is no periodic review performed by DOH project officer to include a detail review of expenditure documentation during on-site visits of the contractors.

  DOH Response: Effective immediately, as part of the ongoing monitoring site visits of HIV contractors, the DOH project officers will ensure that random samples of monthly expenditures and source documentation from subcontractors will be reviewed to determine if the supporting documentation is adequate and the propriety of the expenditures. This will be added to the checklist for all monitoring visits.

  Auditors' Conclusion: We again commend Health for expanding its monitoring site visits to include reviewing a sample of subcontractor invoices as part of its monitoring checklists.

- There is no requirement contained in the contracts that require the contractors to obtain detail source documentation from respective (sub) contractors.

  DOH Response: DOH contracts/grants and subcontracts require that source documentation be maintained on file and available for review per the Standard General Terms and Conditions (SGTC's). DOH will issue clear guidance and direction to all contractors that they are expected and required, per the contract, to ensure that they and their subcontractors are providing, storing and able to produce their source documentation at any time. Subcontractor source documentation is expected to be maintained at the service agency (subcontractor) level and should be available for contractor review upon request.

SGTC language below:

FISCAL AND PROGRAM RECORDS
C. Contractor agrees to maintain books, records, documents, sub-contracts and other evidence pertaining to the costs and expenses of this Agreement (hereinafter referred to in this paragraph 9 as "the records"), to the extent and in such detail as will properly reflect all net costs, direct and indirect, of labor, materials, equipment, supplies and services and other costs and expenses of whatever nature for which reimbursement is claimed under the provisions of this contract. If Contractor is not a public body, Contractor agrees to maintain books, records, documents and other evidence in accordance with accounting procedures and practices which meet generally accepted accounting principles.

Effective immediately, as part of the processing of invoices for HIV contractors, the DOH project officers will ensure that random samples of monthly expenditure source documentation from subcontractors will be submitted and reviewed prior to payment.

Auditors' Conclusion: As previously stated, we acknowledge Health's intended corrective action. With respect to management's approach in reviewing a random selection of subcontractor source documentation, we recommend that Health independently identify and select which subcontractor source documentation should be provided to support the contractor's summary invoice.

Based on Health's responses to Finding One and the corresponding recommendations, the finding and recommendations remain as stated.

Finding Two: Improvement is Needed in Health's Monitoring of the HIV/AIDS Prevention Program

Audit Recommendation # 9
Develop written policies and procedures for monitoring HIV/AIDS contracts. Procedures should include when and how often they are to be performed, what documentation needs to be maintained, and who is to receive the results of the monitoring.

DOH Response: DOH does maintain written policies and procedures, however we agree that there is a need to both update current versions and create new task and grant type (i.e. County grants, Consortia grants, etc.) specific versions.

DOH maintains an Operations Manual that covers the processing of invoices, grant monitoring, quarterly financial reports, prevention process monitoring forms, and a host of other responsibilities. A copy of this manual was made available for the auditors' review.

Where written policies exist, they will be enhanced; where written policies do not exist they will be developed.

Auditors' Conclusion: We commend Health for acknowledging that written policies and procedures need to be developed or revised. With respect to the Operations Manual noted in Health's response, we were provided a copy of this manual, and based on our review, we determined that these procedures did not apply to how the project officers review invoices or monitor contracts. Rather, this manual was guidance for contractors to use in operating the program.

Audit Recommendation # 10
Require project officers to document by what method the project officers' conclusions were reached on the on-site monitoring checklist. The documentation should include the name and title of the individual providing the information and/or details as to what procedures were performed, such as how many were reviewed or when did the observation occur.

DOH Response: Monitoring checklists will be reviewed and revised to collect additional information documentation as described in the recommendation.

Auditors' Conclusion: Health concurs with our recommendation.

Audit Recommendation # 11
Require all grantees to have an annual site visit to ensure that they are complying with their grant terms and properly invoicing Health.

DOH Response: DOH will require all grantees to have an annual site visit to ensure that they are complying with their grant terms and properly invoicing Health.

Auditors' Conclusion: Health concurs with our recommendation.

- Lack of written policies and procedures (specific to monitoring)

DOH Response: Prevention Section staff will develop written policies and procedures specific to monitoring activities for county/municipal health department grants.

Auditors' Conclusion: Health concurs with our recommendation.

- On-site monitoring needs to be improved

DOH Response: The DOH's Division of HIV/AIDS continually seeks to improve on its monitoring and evaluation activities and welcomes constructive criticism and recommendations for program improvement. Effective immediately, onsite visits and written monitoring reports will be completed for all contractors.

As part of the ongoing monitoring site visits of HIV contractors, the DOH project officers will review their monitoring tools and revise them to more accurately capture the overall goals of the program and the corresponding expenditures and planned expenditures.

Auditors' Conclusion: Health concurs with our recommendation.

- Review of data needs to be documented

DOH Response: In addition to on-site monitoring, the evaluation of contractors includes an ongoing internal review of service process monitoring data and progress reports. Although documented in the monitoring reports, the Division of HIV/AIDS agrees that the documentation of this internal review could be improved and will incorporate this into the written policies and procedures referenced above.

Auditors' Conclusion: Health concurs with our recommendation.

Based on Health's responses to Finding Two and the corresponding recommendations, the finding and recommendations remain as stated.

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Department of Health
HIV/AIDS Prevention Program

Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
May 2010