

# Springfield Health and Human Services Department Performance Audit Highlights

May 2019



## Office of Internal Audit

### Why We Did This Audit

This audit was conducted as part of the Office of Internal Audit's Fiscal Year 2019 Audit Plan.

### Key Recommendations

- Attend procurement training offered by the Office of Procurement and City Comptroller's Office and the Massachusetts Office of Inspector General.
- Prohibit the use of public and grant funds on donations, unless specifically allowed by the grant.
- Work with the Office of Management and Budget (OMB) to obtain a formal indirect cost allocation study, and once obtained, seek approval from granting agencies for the new allocation methodology.
- Review grants on a regular basis and ensure all necessary reconciliations are performed in MUNIS prior to the close out of a grant.
- Implement a process to perform vendor oversight activities, at least annually, including the review of the Information Technology vendor's Service Organization's Control (SOC) report.
- Work with the OMB to establish a revolving account for service revenues generated at the health and dental clinics.
- Record reimbursements and other revenue received as General Fund revenue.
- Regularly reconcile the number of environmental permits (by permit number) issued to the payments received and identify any missing permit numbers or gaps in sequence numbers for management to investigate.

For more information, please contact Yong No at (413)784-4844 or [yno@springfieldcityhall.com](mailto:yno@springfieldcityhall.com).

### Background

The Springfield Health and Human Services department (SDHHS) promotes health, controls diseases and sanitizes the environment to prevent disease, injury and disability for the residents of Springfield.

In general, the SDHHS provides environmental health, community nursing and health education services. The department is responsible for issuing various permits and licenses such as burial permits, restaurants, caterers, bakeries, day camps, pools, and trash removal services. Additionally, vaccines for immunizations are offered as well as services such as blood pressure readings, health screenings, and referrals. Health education and prevention programs are also offered such as HIV/AIDS awareness/education/outreach, substance abuse prevention, violence prevention, tobacco control and many other programs.

The SDHHS receives various federal and state grants; the largest is the federal Health Services for the Homeless grant.

### What We Found

We found that the internal control environment for the Health Services for the Homeless program, the SDHHS' largest program, was effective. For that program, we noted procedures were in place to ensure expenditures were allowable and reasonable, required reports were submitted timely, assets purchased with the Health Resources and Services Administration (HRSA) grant were safeguarded, and there was robust oversight over the program. However, we noted that these internal control practices did not always carry over to other aspects of the SDHHS' operations. Specifically, we found the following are areas in need of improvement:

- Adherence to the City's procurement policy and other applicable standards needs improvement.
- Unallowable expenditures were made on donations.
- Indirect administrative costs charged to grants may be understated.
- Expired grants are not reconciled in MUNIS.
- A third party Information Technology vendor is unmonitored.
- Certain General Fund revenues are misclassified as grants.
- Environmental permits issued are not reconciled to payments received in MUNIS and permit numbers are not reviewed for missing numbers or gaps in sequences.



## Introduction

Chapter 468 of the Acts of 2008 authorizes the Director of Internal Audit to examine the records of the City of Springfield, MA (City or COS) and its departments to prevent and detect waste, fraud and abuse and to improve the efficiency, effectiveness and quality of public services provided in and by the City. In accordance with this legislation, all offices and employees of officers, boards, commissions, agencies and other units of City government are required to comply with requests for information or access to systems and records by the Office of Internal Audit (OIA). The following review aligns the authority and goals of the OIA with those of the City. Specifically, this audit addresses the City's values related to accountability such as integrity, fiscal responsibility and transparent practices. The audit also supports the City's strategic priorities ensuring operational excellence, fiscal health and sustainability in all divisions, departments, programs and activities.

This report is not intended to be an adverse reflection of the City or of its departments. The intent is for City management to utilize these findings and recommendations to help in making future well-informed strategic decisions while ultimately meeting City objectives.

## Background

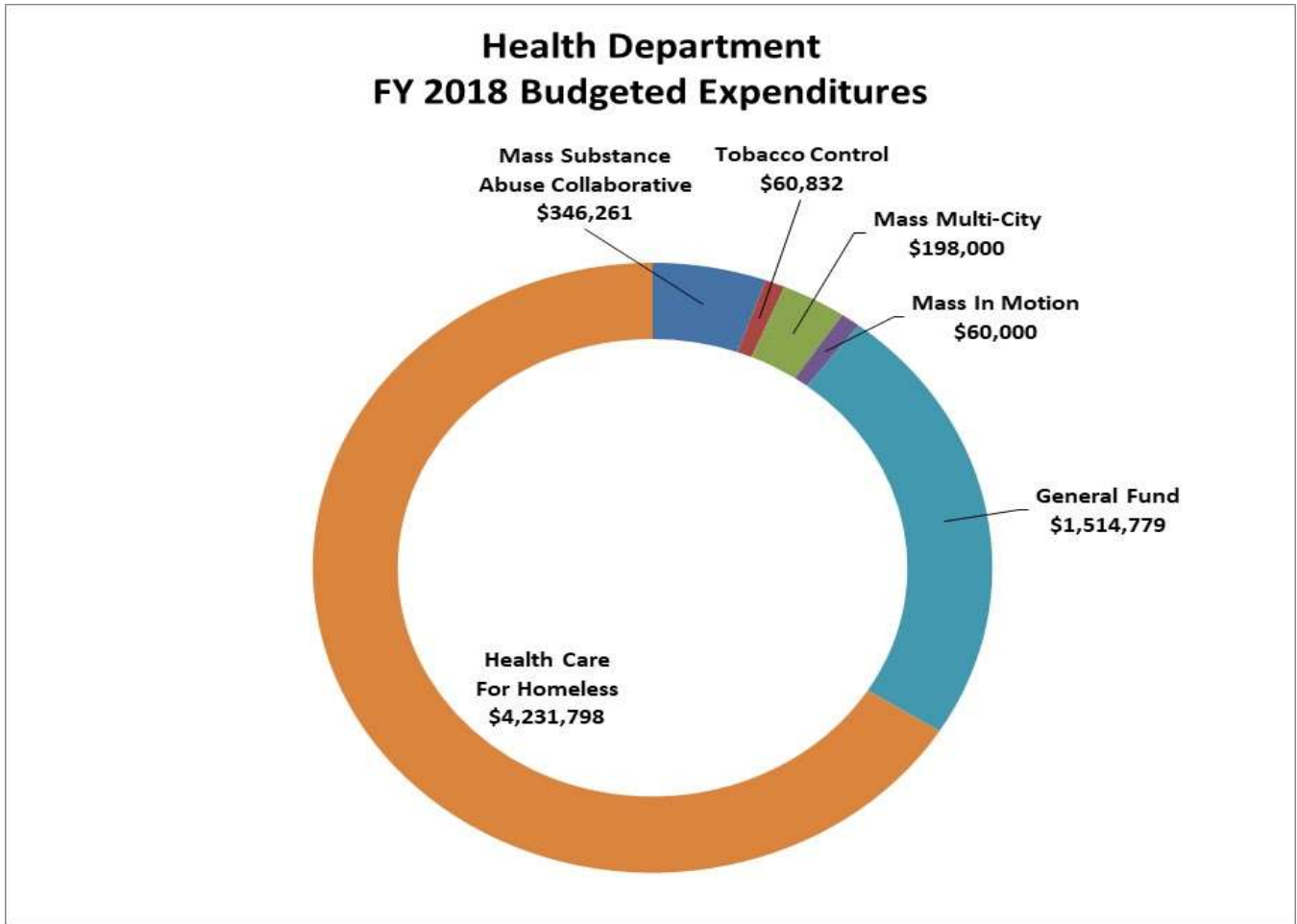
The Springfield Department of Health and Human Services (SDHHS) is comprised of the following departments: Health, TJO-Animal Control, Elder Affairs, Veteran Services, and Public Libraries. Our audit focused solely on the Health department. The mission of the Springfield Health department is to promote physical and mental health, control communicable diseases and sanitize the environment to prevent disease, injury and disability for the residents of the City of Springfield.<sup>1</sup> In general, the department provides environmental health, community nursing and health education services. The department is responsible for issuing various permits and licenses such as burial permits, restaurants, caterers, bakeries, day camps, pools, and trash removal services. Additionally, vaccines for immunizations are offered as well as services such as blood pressure readings, health screenings, and referrals. Health education and prevention programs are also offered such as HIV/AIDS awareness/education/outreach, substance abuse prevention, violence prevention, tobacco control and many other programs. The department was budgeted forty-one (41) full time employees for its departmental staff for Fiscal Year (FY) 2018.

---

<sup>1</sup> City of Springfield, MA Fiscal Year 2018 Adopted Budget



The FY 2018 budget for the SDHHS was comprised of the following expenditures:



### Objectives, Scope, and Methodology

#### Objectives

The primary objective of this audit was to evaluate the department’s internal controls over operations, including cash receipts, disbursements, payroll, grant compliance, and safeguarding of assets and information.

#### Scope

Our scope included FY 2017 and the period from July 1, 2017 to December 31, 2017.



## Methodology

To accomplish our objective, we performed the following procedures:

- Interviewed employees to gain an understanding of the operational processes and procedures, including cash handling at the City's health centers, disbursement, payroll, grant compliance, and practices in safeguarding assets and information.
- Reviewed the 2017 federal audit report for the HRSA (health care for the homeless) grant.
- Reviewed grant agreements with federal and state agencies.
- Reviewed the Service Organization Report (SOC) for the SDHHS' Information Technology (IT) vendor.
- Reviewed equipment inventory listing.
- Tested a sample of disbursement transactions to determine if they were processed in compliance with the City's procurement policy, allowable under the applicable grant agreement (if applicable), and to verify the accuracy of the information provided to the City Comptroller.
- Tested a sample of payroll transactions to ensure payroll was processed accurately and charged to the correct grant and/or City fund.
- Tested a sample of revenue transactions to ensure billings were accurate, properly approved, and related cash receipts were complete.
- Compared revenues to expenditures in MUNIS for those grants that had expired during the period under review to identify potential unreimbursed expenditures or unspent funds.
- Performed other tests deemed as necessary.

## Noteworthy Accomplishments

Our audit revealed the following strengths at the SDHHS:

- Administration of the HRSA (Health Services for the Homeless) grant: The SDHHS had undergone a federal audit of the HRSA grant in 2017, which resulted in all recommendations having been remediated prior to the commencement of the FY 2018 grant award.
- Governance of the Health Services for the Homeless program: Regular Health Commission board meetings are held and the minutes for the Health Commission meetings were well documented and convey a thorough financial review of the program.

## Findings and Recommendations

The following are audit findings and their potential risks/impact, recommendations, and management responses to address the weaknesses identified during the audit.



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
1.	<b>Adherence to the City's procurement policy needs improvement.</b>	<p>The SDHHS made certain expenditures which were not in accordance with the City's procurement policy and Massachusetts regulations. Specifically, the SDHHS charged purchases, which were funded by a state grant, to an expired contract.</p> <p>Additionally, out of the 75 expenditures we tested, 10, or 13%, of requisitions were made after the invoice dates. In accordance with the City's Accounts Payable policy, goods and services greater than \$100 purchased by City departments should be requisitioned and approved for purchase by the Office of Management and Budget, the Office of Procurement, and the Department Head prior to the actual performance by the vendor. This will ensure invoices are processed efficiently, vendors are paid timely, and that purchases are properly encumbered.</p>	<p>Paying an invoice against a contract that is not applicable creates a risk for the City of non-compliance with contractual terms, procurement laws, and/or other applicable standards.</p> <p>Having services performed/goods delivered prior to their requisition could result in non-payment to the vendor due to lack of funds and/or exceeding contractual limits.</p>	<p>We recommend that the SDHHS attend procurement training, which is offered by the Office of Procurement and Comptroller Office and the Massachusetts Office of Inspector General, to better understand the City's procurement policy, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Procurement standards,</li> <li>• Adequate and complete invoice processing, and</li> <li>• Legal contract execution requirements.</li> </ul>	<p>To avoid having services rendered prior to their requisitions, SDHHS, unless approved by City Hall, will not make-emergency purchases. SDHHS agrees to attend training on procurement standards and best practices.</p>
2.	<b>Certain expenditures were made on donations to various public charities</b>	<p>We noted that the SDHHS made 36 expenditures on donations for approximately \$26,000 to 27 different public charities. We specifically noted</p>	<p>Expenditures on donations which are funded by a state grant and</p>	<p>We recommend that the SDHHS comply with state regulations by not making donations to</p>	<p>SDHHS understands OIA's issue and will seek advice of City Law Department regarding the legality of sponsorships and donations to agencies working with</p>



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
	<b>funded by a state grant and public funds.</b>	that 35 of these donations were funded by the SDHHS' private grants (see Finding 6b), and one donation of \$1,000 funded by a state grant. Massachusetts regulations <sup>2</sup> prohibit the use of public money or property by municipalities for the purpose of maintaining or aiding any institution or charitable or religious undertaking that is not publically owned, including any grants, contributions or donations. We determined that these expenditures made to public charities were donations as they were primarily made to aid the organizations, i.e., nothing of value was purchased from the public charities.	public funds expose the City to risk of non-compliance with state regulations and could subject the City to repay the unallowable costs to the Commonwealth of Massachusetts.	public charities. If a state granting agency allows for donations, then the SDHHS should have such provisions memorialized in the grant agreement.  Also, if the SDHHS desires to continue working with a public charity, a contract should be in place to specify the terms and conditions of the services provided by the public charity.	SDHHS programming. Community Outreach and Engagement are essential tools in bringing exposure to programs offered by SDHHS. Support also creates visibility for SDHHS programming.
3.	<b>The SDHHS may be understating its indirect costs charged to grants.</b>	According to the SDHHS, its granting agencies, such as the U.S. Department of Health and Human Services, approve its indirect charges based on budgets. There is no detailed listing of expenses which make up indirect charges negotiated with its granting agencies. The SDHHS indicated that it has never had an indirect cost allocation study to determine its actual indirect costs and is unsure if the budget includes all allowable indirect costs. Accordingly, the SDHHS may be understating its indirect costs to its state and federal grants by potentially excluding	Without a formal study of the indirect costs, the SDHHS may be understating the indirect costs charged to grants.	We recommend that the SDHHS work with the Office of Management and Budget to obtain a formal indirect administrative cost allocation study, and once obtained, the SDHHS seek approval from the granting agencies for the new allocation methodology.	Indirect charges were set by City Comptroller's office at 3.49%.  SDHHS has worked and will continue to work with OMB to obtain a formal indirect administrative cost allocation study (ongoing process).

<sup>2</sup> Anti-Aid Amendment, Section 2 of Article 46 of the Amendments to the Massachusetts Constitution, as amended in 1974 by Article 103 of the Amendments.



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
		allowable costs, such as allowable depreciation and the Commissioner's salary. Federal Cost Principles <sup>3</sup> state, "Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived."			
4.	<b>Expired grants were unreconciled in MUNIS.</b>	We noted there were 13 grants (both federal and state) that had expired during the period under review for which the expenditures did not equal the revenues in MUNIS. In all of these instances, the life to date revenues exceeded the life to date expenditures. These differences indicated that the necessary journal entries were not submitted to be created in MUNIS to ensure revenues and expenditures reconciled. Federal regulations require the financial management system of each non-federal entity to identify, in its accounts, all federal awards received and expended and under which federal program they were received. <sup>4</sup> Likewise the standard contractual terms for the Commonwealth of Massachusetts require that contractors keep financial	Failure to reconcile grant final reports to MUNIS could result in the following: <ul style="list-style-type: none"> <li>Expose the City to non-compliance with federal and state regulations,</li> <li>Mislead City management to believe grants have been over expended or underutilized, and</li> </ul>	The SDHHS should review grants on a regular basis and ensure all necessary reconciliations are performed in MUNIS prior to the close out of a grant.	SDHHS agrees with the findings and will seek help of OMB with reconciliation of accounts (ongoing process).

<sup>3</sup> Code of Federal Regulations, Title 2, Part 200, Section 200.56

<sup>4</sup> Title 2 Code of Federal Regulations, Section 200.302



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
		records in such detail as to properly substantiate claims for payment under a contract. <sup>5</sup>	<ul style="list-style-type: none"> <li>Indicate under/over billings to the granting agency.</li> </ul>		
5.	<b>A third party information technology vendor was unmonitored.</b>	The SDHHS outsources the management of its Eclinical application, including storage and backup and the network on which it runs, to a third party vendor. Sensitive patient information is contained in the Eclinical application, and federal regulations require the safeguarding of patient information <sup>6</sup> . We noted that the SDHHS has not performed formal vendor oversight activities as it relates to information security practices at this vendor, including those functions that the vendor subcontracts to another vendor. Detailed vendor oversight activities, such as annual reviews of the vendor's secure storage, backup, and network practices ensure that the SDHHS can rely on the vendor to adequately protect the SDHHS' patient information.	Lack of oversight could allow unsecure practices at the IT vendors to persist and place the SDHHS' patient information at risk.	We recommend that the SDHHS implement a process to perform vendor oversight activities, at least annually, including the review of the vendor's Service Organization's Control (SOC) report.	SDHHS will implement a quarterly process to perform vendor oversight activities. This review process will include review of: System Uptime System Performance System Backups and storage Firewall access logs Network perimeter security Configuration.  SOC report will be requested and reviewed annually at the beginning of each calendar year versus fiscal year.

<sup>5</sup> Commonwealth Terms and Conditions, paragraph 7

<sup>6</sup> Code of Federal Regulations, Title 45, Section 164.530(c)





No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
6.	<b>Certain General Fund revenues were misclassified as grants.</b>				
a.	<b>Service fees generated at the dental and homeless clinics were misclassified as grant revenue.</b>	<p>The SDHHS bills insurance carriers and patients for services rendered at its health centers. The revenues from health and dental services are recorded in MUNIS as grant revenue, thus allowing the revenue to be earmarked for the SDHHS. However, the funding sources are derived from service fees, not grants. As such, grant classification in MUNIS is incorrect. In accordance with Massachusetts General Laws<sup>7</sup>, “all revenues are required to be paid into the General Fund, except revenue required by law to be paid into a fund other than the General Fund and revenue for or on account of sinking funds, trust funds or trust deposits.”</p> <p>In order to have the programmatic billing/revenue remain with the department, the SDHHS should establish a revolving account. A revolving account is a fund to set aside revenue received, through fees and charges, providing a specific service or program. The fund is available to use by the department without further appropriation to support the particular service or program.</p>	<p>For FY 2017, The SDHHS had misclassified General Fund revenues related to health and dental services as grant revenues totaling \$834,273 and \$17,605, respectively. For the six months ended December 31, 2017, the SDHHS had misclassified General Fund revenues related to health services as grant revenues totaling \$475,385. There were no revenues related to dental services for the six months ended December 31, 2017.</p>	<p>We recommend that the SDHHS work with the Office of Management and Budget to establish a revolving account for its service revenues generated at its health and dental clinics.</p>	<p>SDHHS will confer with City Comptrollers and OMB to set up a revolving account to collect revenue from Health Services for the Homeless clinics.</p>

<sup>7</sup> Massachusetts General Laws, Part 1, Title III, Chapter 29, Section 2



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
b.	<b>Cost reimbursements received by the SDHHS were misclassified as private grant revenue.</b>	We noted that reimbursements for flu and other vaccinations were recorded as private grants in MUNIS, thus allowing the revenue to be earmarked for the SDHHS. We noted there were no grant agreements associated with these payments. Massachusetts General Laws <sup>7</sup> require such revenue to be recorded as General Fund revenues.	In FY 2017, General Fund revenues of \$12,775 were misclassified as private grant revenues. For the six months ended December 31, 2017, General Fund revenues of \$472 were misclassified as private grant revenues.	We recommend that reimbursements and other revenue received by SDHHS be recorded as General Fund revenues.	SDHHS will work with City Comptrollers and OMB to implement OIA's recommendation.
7.	<b>The SDHHS lacks environmental permit reconciliation procedures.</b>	As noted in the Citywide Cash Handling Follow Up review, the SDHHS issues permits which are sequentially numbered; however, the SDHHS does not perform a reconciliation of the number of permits issued to the payments received in MUNIS. Moreover, the SDHHS does not review issued permit numbers for missing numbers or gaps in sequences.	The lack of permit reconciliation could allow cash receipts discrepancies and/or shortages to go undetected.	We recommend that the SDHHS regularly reconcile the number of permits (by permit number) issued to the payments received and identify any missing permit numbers or gaps in sequence numbers for management to investigate.	As of February 2019, OIA's recommendation was implemented.