MULTNOMAH COUNTY GOOD government HOTLINE

Tip report

Waste identified: Hotline tip identified Joint Office's approval of over $500,000 of unallowable expenses

Executive Summary

Through the Good Government Hotline, the County Auditor's Office received a report regarding All Good Northwest (AGNW), a provider under contract with the Joint Office of Homeless Services (Joint Office) to provide emergency shelter to community members. Through our investigation, we identified waste of government resources due to inadequate oversight by the Joint Office. For example, the Joint Office had approved more than $525,000 in unallowable costs due to ineffective contract management. Our investigation caught these unallowable costs, and we notified management, who then worked with AGNW to make corrections. The county ultimately recouped the costs.

Waste
The needless, careless or extravagant expenditure of funds, incurring of unnecessary expenses, or mismanagement of resources or property. Waste does not necessarily involve private use or personal gain, but almost always signifies poor management decisions, practices or controls.

AGNW provides alternative shelter for people experiencing houselessness. At the time of this report, all of AGNW's funding has come from the county, which indicates that the Joint Office should have been more closely monitoring AGNW's invoicing from the beginning. We identified that the Joint Office knew AGNW was new and was 100% reliant on county funding, but did not provide the level of fiscal monitoring/oversight that is essential in these circumstances.

Our investigation, based on a hotline tip, identified over $525,000 in unallowable costs that the Joint Office had approved. Contracting services to providers is a significant part of what the Joint Office does. In fiscal year 2023, contracted services for the Joint Office are budgeted to be $182[1] million, nearly 70% of the Joint Office's total expenditures for the year. The Joint Office must improve its fiscal oversight and contract monitoring to prevent future waste of limited government resources.

[1] Based on the County's FY2023 adopted budget.

Investigation Results

Through the investigation, we identified waste of county resources due to inadequate oversight. In particular, we found ineffective contract monitoring that resulted in unallowable costs being approved by the Joint Office.

Type of Unallowable Cost	Amount
Overbilling*	$331,553
Unallowable Indirect Expense**	$193,675
Total	$525,228

* Based on our review of AGNW's approved February 28, 2022 invoice compared to AGNW's general ledger details
** Indirect was first requested by AGNW on their March 31, 2022 invoice

Internal Control Deficiencies Led to Unallowable Costs Being Approved by the Joint Office

Overbillings

AGNW overbilled the county by over $330,000, primarily in personnel expenses, by duplicating payroll expenses for the same pay period over separate invoices. Joint Office management approved the invoices and paid AGNW, resulting in overpayment to AGNW. After we notified AGNW and Joint Office management, AGNW made corrections through future invoices, so that the county could recoup the overpayment.

Internal Control
Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.

Joint Office finance staff did not identify that AGNW had billed for the same costs, including personnel costs, on more than one invoice. This is the result of inadequate monitoring in their internal control process. The Joint Office should have required detailed supporting documentation for the invoices and reviewed the documentation before deciding whether to approve the invoices. The county's frequency of reviews for detailed documentation should be based on the risk associated with the provider. Since AGNW was a newly created provider in 2021 and was 100% reliant on county funding, it is reasonable that the county would consider AGNW to be higher risk.

<u>Unallowable Indirect Expenses</u>

The Joint Office initially approved $193,675 of indirect expenses. The Joint Office incorrectly told AGNW that it could bill the county for indirect expenses. However, since 100% of AGNW's expenses, including administrative costs, were billed to and paid by the county directly, no additional indirect expenses existed. Billing for indirect costs was therefore unallowable. A more detailed invoice review process would have identified that AGNW was billing 100% of its expenditures to the county, and indirect expenses were not applicable. After we notified Joint Office management that they had incorrectly approved paying indirect expenses, the Joint Office stopped payment and worked with AGNW to get a corrected invoice processed.

Indirect Expenses
Administrative overhead costs that support the overall organization and are not identified with a specific program, such as accounting and HR costs or rent for administrative operations.

County used Capacity Building Funds to Help Create AGNW

AGNW was essentially a county-funded start-up. It did not exist as an operational organization until the Joint Office contracted with it to operate alternative shelter programs. Because of this, it did not have any established funding or cash flow to support operations. It appears that AGNW's overbilling errors stemmed, at least in part, from cash flow issues within the organization due to its 100% reliance on county funding.

Capacity Building Funds
The Joint Office established capacity building funding in September of 2021: "In order to support system growth and development, the Joint Office of Homeless Services will provide one-time capacity building funds to new and expanding organizations. This funding will help organizations invest in the organizational infrastructure and program development that is needed for system expansion and long-term stability."

The county usually pays providers on a cost-reimbursement basis. As a new organization, AGNW had no established funds (for example, cash) to cover costs as they came due, which would occur before being reimbursed by the county. To help alleviate the cash flow constraints, the county provided AGNW funds based on one month of their initial budgeted expenditures. These funds were intended to serve as the needed cash that would allow AGNW to cover costs as they came due. The cash ultimately serves as operating capital for AGNW and is cash held by AGNW with no specific constraints or repayment terms. In addition to providing the funds, the Joint Office also paid AGNW on a cost-reimbursement basis, per its contract with the county, for 100% of its operating costs.

According to county staff and a September 2021 Joint Office memo outlining its capacity building program, the Joint Office agreed to pay $377,456 in capacity building funds to help AGNW with its cash flow needs. The Joint Office provided the funds in November 2021, about two months after AGNW operations began. The $377,456 of cash was apparently not enough to cover AGNW's operational costs (mostly personnel expenses) while waiting to invoice and be reimbursed by the county for those costs:

- As noted above, AGNW overbilled the county by more than $330,000. AGNW told us the double billing was the result of invoicing the county based on an estimate for incurred personnel costs in order to include the costs on the invoice, and get the invoice submitted as soon as possible so AGNW would have enough cash flow to pay employees. On the following invoice, with the payroll amounts booked, AGNW failed to back out the estimate that was include on the previous invoice.
- Two directors of AGNW made personal loans to AGNW. Although there is no prohibition for a director to provide a loan, this should have raised concern in the Joint Office about the organization's financial viability, and by extension, the organization's ability to continue to provide services on behalf of the county for the community.
- As a new organization, with no funding besides the county's, AGNW was in need of additional oversight and support from the Joint Office. Such additional oversight and support would likely have helped AGNW navigate this cash flow issue better.

Since we concluded our investigation, we learned that the Joint Office approved an additional $1.1 million in capacity-building funding for AGNW, bringing the total of capacity-building funding to nearly $1.5 million.

Capacity Building Funds Provided to AGNW	**Date Paid**	**Amount**
Initial Funds provided	November 2021	$377,456.00
Additional Funds provided	May 2022	$1,099,556.66
Total		$1,477,012.66

Under the terms of the September 2021 memo, AGNW was eligible to receive "an amount equal to one month of the initial annualized contract budget for new investments." In an update to that memo written to the county's Chief Financial Officer on April 18, 2022, just days after we notified Joint Office management of the unallowable costs, Joint Office management wrote that it was changing its policy to allow for the payment of up to two months of annualized contract expenses to providers. The memo also included the language: "The amount of each allocation will be determined based on the individual needs of the provider."

The Joint Office provided several other providers with capacity-building funding, but provided no other providers with capacity building funds to help establish a new organization's operations. It is unclear if the Joint Office made anyone else aware that such an opportunity existed.

Federal Funding Used, but No Required Risk Assessment Performed, & AGNW Not Notified of Federal Funding Requirements in their Contract with the County

The county's contracting policies require a fiscal compliance review if federal funding is used to fund a contract. It is the responsibility of a department (the Joint Office in this case) to let the county's Central Purchasing unit know if federal funding is involved. The Joint Office did use federal funding to cover some of AGNW's program expenditures, as we identified in our review of the invoices. However, a fiscal compliance review did not occur. This process did not occur because the Joint Office did not let the county's Central Purchasing unit know that federal funding would be used to pay AGNW. It is critical that a department identifies the potential for federal funding so that a fiscal compliance review is performed.

When a department identifies the potential for federal funding, the county's Fiscal Compliance unit completes a required risk assessment. The risk assessment would likely have identified the elevated risk of cash flow issues associated with AGNW, based on it being a brand new organization and its 100% reliance on funding from the county. This risk level would have led to additional language in the contract to help address the elevated risk, such as increased monitoring.

County Risk Assessment
The risk assessment includes reviews of the contractor's reliance on county funding, the size of the contract, the contractor's experience with government contracts, and the experience of the contractor's accounting staff, among other criteria.

With the identification of federal funding, the contract would have included the appropriate language necessary for contracts that have federal funding. This is important, especially for new providers, as federal funding can trigger compliance regulations specific to the federal funding. The county should give providers as much advance notice as possible for these potential additional requirements.

Recommendations

The Auditor's Office recommends the following measures to the county and the Joint Office, to improve quality and accuracy in invoice processing, and to ensure accountability with regard to contract management:

1. The county should not provide 100% funding to an organization, unless that organization goes through a risk assessment, no matter the funding source. For organizations the Joint Office may fund, the Joint Office should conduct the risk assessment and develop a plan to identify the appropriate level of support, funding, and oversight. The risk assessment and plan should be done in collaboration with the Chief Financial Officer's Fiscal Compliance unit.
2. Based on the risk assessment results, the Joint Office should ensure contract language is added to ensure appropriate monitoring occurs. The Joint Office should do this in collaboration with the Chief Financial Officer's Central Purchasing unit.
3. Detailed monitoring and review of invoices should occur on a regular basis by the Joint Office fiscal staff. The frequency of monitoring and review should be increased for all organizations identified as high-risk (which should include any new/start-up organizations) and be no less frequent than at least once every six months. The Joint Office's detailed review should include reviewing supporting documentation for amounts reported on invoices submitted. Examples can include requiring ledger details and comparing to invoice amounts reported and performing follow-up for specific details as deemed necessary.
4. To help address any potential role conflicts, the Joint Office fiscal staff responsible for invoice review and monitoring should be separate and have independence from the Joint Office program staff responsible for advocating for and supporting providers.

About Hotline Investigations

A hotline investigation is not an audit. We follow our detailed procedures in the investigation of hotline tips, which include a preliminary review of the tip and an investigation when our preliminary review indicates it is necessary.

We follow all of the requirements of Oregon Revised Statute 297.765, Policies and Procedures for Local Government Waste Hotlines. Our compliance with ORS 297.765 requires us to determine in writing whether activities are occurring that constitute waste, inefficiency, or abuse. The statute allows us to include other pertinent information in our determination. When we determine that waste, efficiency, or abuse has occurred, we are to deliver our findings to the Board of County Commissioners.

Response Letter

Joint Office of
Homeless Services

To: Jennifer McGuirk, County Auditor
From: Shannon Singleton, Interim Director, JOHS
Date: July 26, 2022
Re: JOHS Response to County Auditor Hotline Report Tip # 3701

The Joint Office of Homeless Services (JOHS) appreciates the work of the County Auditor in following up on the original hotline call and producing this report. We would also like to highlight that upon closing her review, the Auditor concluded that not a single dollar was ultimately lost. We are grateful to the Auditor's Office for alerting us, and we are satisfied with the swift resolution of the issue — due in part to work that was already underway at JOHS to improve our contracting systems. Those improvements, which we have proactively pursued as a necessary step to transforming a small office into a large County department, helpfully align with many of the Auditor's recommendations. Our response to each recommendation is as follows:

1. **Auditor Recommendation**: The county should not provide 100% funding to an organization, unless that organization goes through a risk assessment. For organizations the Joint Office may fund, the Joint Office should conduct the risk assessment and develop a plan to identify the appropriate level of support, funding, and oversight. The risk assessment and plan should be done in collaboration with the Chief Financial Officer's Fiscal Compliance unit.

   JOHS Response: The JOHS agrees with the need to perform a risk assessment on providers that are being considered for future Capacity Building funds and/or for providers that are 100% funded by Multnomah County. The risk assessments will be performed prior to contract execution and JOHS will notify the Fiscal Compliance unit to coordinate.

   As described in the hotline report, risk assessments, per County procedures, are currently performed when federal funds are being used. Under the parameters referenced above, a risk assessment would be performed no matter the funding source. Risk assessments will evaluate various key elements (e.g., financial policies, governance, financial health, reliance, etc.) to help us determine the appropriate levels of risk, support, and necessary oversight needed prior to contract execution.

2. **Auditor Recommendation:** Based on the risk assessment results, the Joint Office should ensure contract language is added to ensure appropriate monitoring occurs. The Joint Office should do this in collaboration with the Chief Financial Officer's Central Purchasing unit.

   JOHS Response: JOHS agrees with this recommendation and was already pursuing a similar system improvement process before the Auditor issued her draft hotline report. On June 21, 2022, JOHS contract staff and fiscal staff met with the County's Deputy Chief

Financial Officer and the Fiscal Compliance and Central Contracts units. Together we developed a process when creating any new service contracts that can apply to all funding sources:

A. Confirm the source used to fund the contract
B. If Federal funding/grant, then ensure that:
    a. Attachment F is created
    b. Fiscal Compliance completes a risk assessment
    c. Central Contracts is aware of both

Also, with assistance from Central Contracts, JOHS contract staff have completed a review of all current contracts and are now creating amendments with Attachment Fs and launching risk assessments on any contracts that have federal funding. At the County level, an additional step is now included within contracts procedures that requires a contract amendment whenever a current contract receives federal funding.

County practice is to incorporate risk mitigation language into high-risk provider contracts to support appropriate fiscal monitoring when federal funds are involved. When a risk assessment identifies a provider as high risk, risk mitigation language will be incorporated into the contract before the contract is executed. JOHS will continue to work closely with Fiscal Compliance to determine the necessary risk mitigation language. The risk mitigation language will aim to provide mechanisms that enhance financial oversight.

3. **Auditor Recommendation:** Detailed monitoring and review of invoices should occur on a regular basis by the Joint Office fiscal staff. The frequency of monitoring and review should be increased for all organizations identified as high-risk (which should include any new/start-up organizations) and be no less frequent than at least once every six months. The Joint Office's detailed review should include reviewing supporting documentation for amounts reported on invoices submitted. Examples can include requiring ledger details and comparing to invoice amounts reported and performing follow-up for specific details as deemed necessary.

   JOHS Response: The JOHS already has a process where both a fiscal team member and a program team member (the contract manager) reviews invoices when they are submitted by a contractor. This practice has been in place since the start of the JOHS and was updated in March 2022 to provide a parallel invoice review by the two different teams to increase our payment turnaround time. Both teams also have a detailed checklist to ensure reviews are consistent and thorough.

   County practice is to request back-up documentation on areas that historically have been high risk. We always request back-up documentation for Direct Client Assistance, Subrecipient Invoices and Capital Purchases. We have also been asking for backup documentation on the COVID-19 hazard pay funded by federal funds.

Payroll, however, has not been an expenditure for which we've required back-up documentation. Requesting back-up documentation for every expenditure of each invoice from each provider would essentially amount to conducting an audit on every invoice. The workload this would create, both for JOHS staff and the providers, would be significant such that it would likely have a detrimental impact on the speed with which we provide services. Further, we believe that the burden created by these additional steps would far outweigh any potential benefits we may gain from the extra work and time this would require.

4. **Auditor Recommendation:** To help address any potential role conflicts, the Joint Office fiscal staff responsible for invoice review and monitoring should be separate and have independence from the Joint Office program staff responsible for advocating for and supporting providers.

   JOHS Response: This is our current practice. In FY 2022, the JOHS created a dedicated fiscal position, independent of the program team, to support program staff with fiscal technical assistance on invoices and to conduct a separate review of invoices after the contract managers have conducted their review.

In addition to providing our specific responses to the recommendations, we wanted to note several points in the hotline report that are incorrect.

- We respectfully disagree with the report's assessment of our capacity-building pilot and its subsequent revision, based on early feedback from providers. This is not the same thing as a mere cash advance, and cash flow issues have been a problem for small, new, and culturally specific organizations for years — not only in our community, but nationally. New and small providers often find they must juggle immediate cash flow needs against the need to invest in developing their organizational structures, and our pilot program can help emerging organizations better navigate that reality. There is growing research and practice regionally and nationally regarding the impact and need for capacity-building investments that can improve service delivery and equity-driven practices. This pilot is possible because of the new funds JOHS has been allocated as a result of the Supportive Housing Services Measure and responds to the need to dramatically scale up our homelessness services system to meet the need and to deploy these new resources. This pilot is expected to provide data the County can use to explore options more broadly in its contracting across all of its departments.

  The contract language on our capacity-building pilot states: "Contractor has received an allocation of capacity-building funds equal to one month of the annualized operating budget as of the date of the allocation. This allocation is intended to fund organizational development and infrastructure, which is needed to ensure long-term stability in providing the programs and services funded in this Contract. Within one year of the allocation of this funding, Contractor must report on progress made on key elements of organizational stability and infrastructure, including:

  - development of operational, human resources, and fiscal management governance systems;
  - private fundraising and other aspects of independent financial stability;
  - systems for evaluating the effectiveness of business processes and services;
  - equity practices;
  - strategic planning, staff development, and other competencies, strategies, systems, and structures that will ensure organizational stability and effectiveness over time.

  In addition to the capacity-building funding allocation, the JOHS will also make capacity-building technical assistance available to Contractor."

- The report states, "The Joint Office provided several other providers with capacity-building funding, but provided no other providers with advance funding for capacity building to help establish a new organization's operations. It is unclear if the Joint Office made anyone else aware that such an opportunity existed." This is the nature and definition of what we have clearly identified as a pilot program, and in FY 2023, we have already identified several new providers who will be offered the pilot, as well as a number of other providers who have taken on, or will take on, significant new lines of business. That expanded criteria for eligibility is based on the direct experience of the providers who received this funding in FY 2022.
- The report also states, "Since we concluded our investigation, we learned that the Joint Office approved an additional $1.1 million in capacity-building funding for AGNW, bringing the total of capacity-building funding to nearly $1.5 million." It is important to note that the Auditor "learned" this information directly, proactively and transparently from JOHS leadership. The characterization in the report incorrectly implies that information was kept hidden or was not shared transparently. We purposefully shared our updated pilot with the Auditor's staff, after the pilot was amended based on early feedback from the providers receiving the capacity-building funds. This updated policy includes the language regarding who will have access to this pilot as we roll it out in FY 2023.
- The report states, "Two directors of AGNW made personal loans to AGNW. Although there is no prohibition for a director to provide a loan, this should have raised concern in the Joint Office about the organization's financial viability, and by extension, the organization's ability to continue to provide services on behalf of the county for the community." It is unrealistic to expect JOHS, or any County department, to know when personal loans are made within a contractor unless they directly tell us. This would typically be identified during a fiscal audit.