

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
November 1, 2016
“*Communications Received and Filed*” Item

To: Board of Supervisors
From: Department of Finance
Subject: Document Fulfillment Services Contract Agreement Review For The Period Of
March 1, 2010 To June 30, 2016
Supervisory District: All
Contact: Joyce Renison, Assistant Auditor-Controller, 874-7248

RECOMMENDATION

Receive and file the attached agreed upon procedures report, *Document Fulfillment Services Contract Agreement Review For The Period Of March 1, 2010 To June 30, 2016*

Respectively submitted,

Ben Lamera
Director of Finance

Attachment 1, Document Fulfillment Services Contract Agreement Review for the Period of
March 1, 2010 to June 30, 2016



Internal Services

Department of Finance

Auditor-Controller Division

Joyce Renison,
Assistant Auditor-Controller

County of Sacramento

Navdeep S. Gill,
County Executive

David Villanueva,
Chief Deputy County Executive

Ben Lamera,
Director of Finance

October 4, 2016

Ann Edwards, Director
Department of Human Assistance
1825 Bell Street, Suite 200
Sacramento, CA 95825

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Dear Ms. Edwards:

We have performed the procedures enumerated below, which were requested and were agreed to by you to evaluate the Department of Human Assistance's (DHA) contract agreement (Contract) with Document Fulfillment Services (DFS) as listed below:

- CalWIN Client Correspondence Printing and Mailing, contract number WA00025381 for the period from March 1, 2010 to June 30, 2016

This agreed-upon procedures engagement was conducted solely to assist DHA in evaluating DFS' compliance as outlined in the Contract.

DHA's management is responsible for establishing and maintaining effective internal controls for monitoring DFS' activities. In addition, DHA's management is responsible for ensuring DFS' compliance with the Contract's requirements with the County of Sacramento and all other applicable laws, regulations, and statutory requirements.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of DHA's management. Consequently, we make no representation regarding the sufficiency of the procedures described on the next page either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to the contract referred above and is not intended to pertain to any other contractual agreements of DHA.

The procedures we performed for the Contract and our findings were as follows:

- 1) Internal Controls – We reviewed DFS’ internal control policies and procedures including purchasing, vendor payments, invoice claims, cost allocation, general ledger, and financial report preparation.

Finding: DFS did not have written policies and procedures for cost allocation and invoice claims. See Attachment I, *Findings and Recommendations*.

- 2) Financial Statements – We were engaged to review DFS’ audited financial reports for calendar years ended December 31, 2014 and 2015 and interim financial statements for the 6 months ended June 30, 2016 to identify any concerns or issues that require your attention.

Finding: We did not complete the financial statement review procedures due to insufficient information. Accordingly, we are not able to provide a result of the procedure. See last paragraph of this page.

- 3) Invoice Claims – We were engaged to obtain and select three of DFS’ monthly invoice claims for testing. We were engaged to select a sample of 60 transactions from the selected monthly invoice claims. We were engaged to trace these transactions to supporting documentation. We were also engaged to identify any non-compliance from these transactions.

Finding: We did not complete the invoice claims review procedures due to insufficient information. See first paragraph of next page. However, we noted several non-compliance based on limited procedures performed. See Attachment I, *Findings and Recommendations*.

- 4) Metered Postage – We verified whether DFS metered outgoing mail to DHA’s clients as required by the Contract.

Finding: During our visit at DFS’ office on July 21, 2016, we noted that DFS did not meter outgoing mail to DHA’s clients. See Attachment I, *Findings and Recommendations*.

We were not able to complete procedure 2, Financial Statements review. DFS did not have audited financial reports for calendar years ended December 31, 2014 and 2015. DFS’ audited financial reports are not required by the Contract. DFS provided its unaudited financial statements for calendar years ended December 31, 2014 and 2015, and its interim financial statements for the 6 months ended June 30, 2016. However, these financial statements only present combined balances of current assets, property and equipment, current liabilities, long term liabilities, partners’ capital, revenue, and cost of sales and expenses. Therefore, these financial statements are not presented in accordance with U.S. Generally Accepted Accounting Principles. Accordingly, we were not able to complete the Financial Statements review.

Also, we were not able to complete procedure 3, Invoice Claims review. We initially selected September 30, 2010, December 23, 2014, and December 22, 2015 claims for testing. Tracing invoice claims to original sources is the most essential step of the procedure. However, the original source files to support DFS' invoice claims from March 1, 2010 to January 25, 2016 were not available. As such, we were not able to trace September 30, 2010, December 23, 2014, and December 22, 2015 claims to original source files. We selected two additional DFS' invoice claims (January 31, 2016 and May 31, 2016) after January 25, 2016 to test. However, a majority of original source file details from January 26, 2016 to June, 30, 2016 were not available. Accordingly, we were not able to complete the Invoice Claims review.


We were not engaged to, and did not perform an audit or examination, the objectives of which would be the expression of opinions on DFS' schedules or results of our procedures referred to on the previous page. Accordingly, we do not express such opinions. Had we been able to complete procedures 2 and 3 or had we performed additional procedures, additional non-compliance or other matters might have come to our attention that would have been reported to you. This report relates only to the results of our procedures referred on the previous page, and does not extend to DFS' contract requirements as a whole.

DHA's responses to the findings identified during our engagement are described in Attachment I, *Findings and Recommendations*. We did not perform procedures to validate DHA's responses to the findings and, accordingly, we do not express an opinion on the responses to the findings.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Executive, and DHA's management. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.
Audit Manager

Attachment I: *Findings and Recommendations*

County Of Sacramento
Department Of Human Assistance (DHA)
Document Fulfillment Services (DFS)
Contract Review
For the Period From March 1, 2010 To June 30, 2016

Findings and Recommendations

1. Internal Control Review

Comment

Document Fulfillment Services (DFS) did not have written procedures for its invoice claim submission and cost allocation for the County of Sacramento, Department of Human Assistance (DHA). Proper internal controls indicate written policies and procedures should be established and implemented to help the organization prepare its claim invoices and cost allocation efficiently and accurately, prevent errors, and comply with contract requirements. Without written policy and procedures for its invoice claim submission and cost allocation, DFS' staff did not have written procedures to follow, and therefore, could make claim submission errors. As such, we noted differences between the amounts claimed, backup supporting documentation, and CalWIN Client Correspondence Printing and Mailing, contract number WA00025381 (Contract) requirements as described in Finding 3.

Recommendation

We recommend DFS establish and implement written policies and procedures for its invoice claim submission and cost allocation processes.

DHA Management's Response

DHA agrees with the recommendation. DFS is in the process of securing audited financials, which require the creation of written policies and procedures for its invoice claim submission and cost allocation processes.

2. Financial Statements Review

We did not complete this procedure. See Independent Accountant's Report on Applying Agreed-Upon Procedures.

Recommendation

We recommend in the future that DHA include a requirement in the Contract that DFS provide audited financial statements.

DHA Management's Response

DHA agrees with the recommendation. DFS provided summary financial statements during the audit. DFS is in the process of securing audited financial statements that will address these issues. DHA will require audited financial statements for the new contract.

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3. Invoice Claims Review

We did not complete this procedure. See Independent Accountant's Report on Applying Agreed-Upon Procedures. However, we noted several non-compliance based on limited procedures performed.

DFS provides printing and mailing services to DHA for its California Work Opportunity and Responsibility to Kids Information Network (CalWIN) and California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) correspondences.

Comment

a. TDD Endorsement

Telecommunications Device for the Deaf (TDD/TTY) endorsement is a number for the deaf community to call so they are able to inquire about their correspondence(s).

Per the Contract, Section 3. Requirements, 3.6 states "*Mailing envelopes should include pre-printed return address, necessary postal indicia, County specified TDD/TTY phone number, and glass(l)ine address windows*" and on page 19, "****The price per image shall include cost of materials (paper, envelopes, etc.) and cost of processing (pickup/courier service, receiving and batching data, printing, folding, inserting, presorting, delivery to the USPS, etc.) Moreover, the price per image shall equal one-side of printed page and shall include all applicable sales tax.*"

Based on the above Contract requirement, TDD endorsements should be included in the price per image rate and not charged separately at a \$0.0100 rate. We noted TDD endorsements were charged separately.

b. Postage Rates

DHA's Contract with DFS indicates that DFS be reimbursed for metered mail at the United States Postal Service (USPS) Commercial 3-Digit rates.

During our review of the postage rates to the USPS Commercial 3-Digit rates noted in the Contract, we noted some discrepancies as follows:

- DFS charged a \$0.222 rate for some letters that were not in the Contract.

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Findings and Recommendations

- DFS charged the incorrect rates (USPS Mixed AADC [automated area distribution center] rate) for the one and two ounce(s) letters on the postage invoice dated September 30, 2010.
- DFS charged two ounces more for the commercial flats than the ounces noted on the Client Postage Summary report for postage invoice dated September 30, 2010.
- DFS charged the incorrect rate (USPS retail rate) for the flats on the postage invoice dated December 23, 2014.
- DFS' postage invoice dated December 23, 2014 shows a difference of amount from the CalWIN postage invoice amount to the Client Postage Summary report.

c. CalWIN Insert

We noted a difference between the CalWIN insert line items on the September 30, 2010 invoice and DFS' Client Consumption Summary report.

Recommendation

DFS should review the invoices and ensure the items charged are for the correct amount prior to submitting to DHA for reimbursement. We recommend DHA implement procedures to review the invoices to ensure the numbers assessed are correct, supported by adequate backup documentation, and in accordance with the Contract prior to remitting a check to DFS. We further recommend DHA review all invoices paid to DFS and determine any non-compliant charges, and contact DFS to develop a resolution to resolve the non-compliant charges.

DHA Management's Response

DHA agrees with the recommendation. DFS currently provides backup documentation to support invoices and will continue to work with DHA to ensure invoices are reviewed and assessed correctly. DHA will work with DFS and the Statewide Automated Welfare System (SAWS) to obtain the necessary documentation to justify invoice claims.

DFS invoices DHA at the 3-digit automation rate, which is a reduction of 7.1 cents per piece from the retail rate for the first ounce. In some unique cases, these prices may change depending on the specifications of the print job due to size, color, and weight.

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DHA will ensure all invoice claims and charges are accurate, including but not limited to TDD endorsement, postage rate, and CalWIN insert charges, by the vendor per the contract by improving contractual language, monitoring, and compliance.

4. Metered Postage

Comment

During our visit to DFS' office on July 21, 2016, we noted the postage on the sealed envelopes (mail pieces) were permit imprints and not metered postage. Permit imprint postage has the organization's name and U.S. postage paid stamped on the mail pieces. The permit imprint postage does not have the date stamped on the mail piece. A metered postage prints the postage with the date directly onto the mail pieces. Per the Contract, under the Postage section, "*Contractor shall apply postage with a meter showing the date of mailing*". As such, DFS was not in compliance with the Contract requirements.

Recommendation

DFS should review the Contract and print the metered postage directly onto the mail pieces prior to delivery to the USPS per the Contract.

DHA Management's Response

DHA will ensure accurate and cost-effective mailing procedures by the vendor per the contract by improving contractual language, monitoring and compliance. CalWIN client correspondence is sent by way of USPS as first-class mail. Each mail piece shows the date of mailing, especially important in the use of administrative hearings.