

City and County of San Francisco

Office of the Controller – City Services Auditor

DEPARTMENT OF PUBLIC HEALTH:

The Nonprofit Organization Baker Places, Inc. and DPH Need to Improve Contract Invoicing Practices



June 30, 2008

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Elisa Sullivan, Audit Manager
Helen Vo, Associate Auditor



City and County of San Francisco

Office of the Controller - City Services Auditor

**Department of Public Health:
The Nonprofit Organization Baker Places, Inc. and DPH Need to Improve Contract
Invoicing Practices**

June 30, 2008

Purpose of the Audit

We evaluated Baker Places' accounting practices and determined whether Baker Places has adequate procedures, systems, and controls to track, record, and charge the appropriate expenses to the programs funded by the Department of Public Health (DPH).

Highlights

Although Baker Places has mostly adequate procedures, systems, and controls in place, we found that the agency:

- Miscategorized expenditures in more than half of the cost reimbursement invoices we selected for review.
- Failed to charge \$17,000 in payroll costs to a contract program and instead charged those costs to another contract.
- Charged workers compensation inconsistently, sometimes as a direct operating cost and sometimes as fringe benefits.
- Erroneously charged depreciation expenditures to certain program invoices until we alerted the agency and they corrected the practice.
- Did not always request changes to its contract budgets, either through contract modifications or budget revisions.
- Did not have proper documentation to show that it correctly allocated payroll costs to its various programs for employees who work for multiple programs.

Further, we found that DPH's overall contract invoicing process:

- Is overly complex for certain programs and ultimately may not provide a realistic picture of Baker Places' program expenditures.
- May be confusing when deciding whether a contract modification or budget revision is necessary.

Recommendations

The audit report includes nine recommendations for Baker Places and DPH to improve their invoicing and monitoring procedures. Specifically, Baker Places should:

- Consistently charge its expenditures to proper invoice categories, prepare budget revisions for any minor changes to budgets, perform a detailed review of its invoices before submission, and provide DPH with general ledger reports as supporting documentation, if requested by DPH.
- Require its employees who work in multiple programs to record in timesheets the actual time spent for each program.

Further, DPH should:

- Work with Baker Places to determine whether they can reduce and simplify the contract invoice expenditure categories and whether they can allow one master invoice and budget per program.
- Clarify its policy concerning budget revisions.

Copies of the full report may be obtained at:

*Controller's Office • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500
or on the Internet at <http://www.sfgov.org/controller>*

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

June 30, 2008

Mitchell Katz, MD
Director of Public Health
Department of Public Health
101 Grove Street, Suite 308
San Francisco, CA 94102

Dear Dr. Katz:

The Controller's Office, City Services Auditor, presents its report on the audit of financial controls over contracts awarded to Baker Places, Inc. (Baker Places) by the Department of Public Health (DPH). We conducted this audit because Baker Places is a recipient of a large amount of contract funds from the City and has experienced some cash flow problems in the past. The objectives were to evaluate Baker Places' accounting practices and to determine whether Baker Places had adequate procedures, systems, and controls to track, record, and charge the appropriate expenses to the programs funded by DPH.

Although Baker Places has mostly adequate procedures, systems, and controls in place, the agency miscategorized expenditures and made other errors in more than half of the cost reimbursement invoices we reviewed. In addition, Baker Places did not always request changes to its contract budgets, either through contract modifications or budget revisions. We recommend that DPH amend its policy in this area to clarify when modifications and revisions are necessary. Baker Places also did not have proper documentation for allocating payroll expenditures to its DPH contracts.

The audit includes nine recommendations for Baker Places to improve its invoicing procedures and for DPH to improve its oversight and monitoring procedures. Both Baker Places' and DPH's responses to the audit are attached as appendices. We appreciate the assistance and cooperation that Baker Places and DPH staff provided to us during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ben Rosenfield", written over a horizontal line.

Ben Rosenfield
Controller

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

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LIST OF ACRONYMS

BSLP-LT	Baker Supported Living Program Long Term
DPH	Department of Public Health
HSA	Human Services Agency
ISN	Integrated Services Network

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INTRODUCTION

Audit Authority

The Controller's Office, City Services Auditor has authority under Appendix F of the Charter of the City and County of San Francisco (City), as well as the San Francisco Administrative Code, to audit all city contracts. Further, the Department of Public Health (DPH) includes an audit provision in its contracts with the organizations it contracts with to provide services.

Background

Baker Places provides social rehabilitation and housing options for people struggling with mental and psychological illness, chemical addictions, and HIV/AIDS.

Baker Places, Inc. (Baker Places) is a non-profit corporation providing an array of community-based services to the residents of San Francisco with mental health, substance abuse, and/or HIV/AIDS related issues. The agency was founded in 1964, seeded with funds from Glide Memorial Methodist Church, with the goal of providing residential treatment services for adults recently released from Napa State Hospital. In 1969, Baker Places incorporated as a private non-profit, tax exempt California Corporation, and began expanding services through contracts with DPH.

With approximately 200 employees and a budget of more than \$13 million for fiscal year 2006-07, Baker Places provides acute residential programs, transitional residential programs, and supported community living services to more than 1,500 individuals annually. The programs are mostly funded by 11 contracts with DPH and another city agency, the Human Services Agency (HSA); additional funds come from client fees and some federal contracts. DPH and HSA provide city general fund money, in addition to federal pass-through money to Baker Places through monthly contract invoicing. The following exhibit summarizes the contracts between Baker Places and the two city departments for fiscal year 2006-07.

EXHIBIT 1		Contracts Between Baker Places and the City for FY 2006-07	
#	City Department and Program Name	Amount	
Department of Public Health			
1	Mental Health Services	\$	6,052,338
2	Substance Abuse Services		3,639,611
3	Ferguson Place (Treatment, Supported Living, Rental Subsidies)		1,484,734
4	Integrated Services Network – DPH		543,571
5	Integrated Services Network – Star and Camelot Hotels		573,694
6	HIV Detox		148,875
7	Empress Hotel		628,045
8	Targeted Case Management		43,847
Human Services Agency			
9	McKinney		193,517
10	Page Street Detox		158,430
11	Odyssey House		11,308
TOTAL		\$	13,477,970

Source: Baker Places' contract log

Baker Places has had cash flow issues in the past and is attempting to sell another of its buildings to alleviate future potential cash flow issues.

Because Baker Places is heavily reliant on city funds and can only obtain reimbursement through the actual units of service it provides or the expenditures it actually incurs for providing contracted services, Baker Places must closely monitor and manage its cash flow. Nevertheless, in 2005, according to Baker Places' director of business and operations, Baker Places had to sell a parcel of property to alleviate some cash flow problems it was experiencing. According to the director of business and operations, although Baker Places does receive advances for a few of their contracts, the contract certification process at the beginning of each contract period takes the city months to complete. Baker Places cannot receive any funds from those contracts until the process is complete, and, as a result, is often short of funds during the first six months of its contracts. During that period, Baker Places continues to provide services, even though Baker Places cannot be paid for the services. Because it anticipates future cash flow problems, Baker Places has placed another of its buildings for sale, but according to the director of business and operations, there have not been any bids for the property as of January 2008.

DPH's recent standard fiscal and compliance monitoring report of current contracts with Baker Places, dated January 29, 2007, found that Baker Places did not show evidence of adequate cash flow or reserves. However, DPH indicated that Baker Places would not be required to

liquidate fixed assets, but that it should be allowed adequate time to fund a reserve account, with at least two months of reserves, from which to draw funds. DPH requested in its report that a balance sheet be made available every six months to monitor Baker Places' progress on funding its reserves. Currently, DPH receives quarterly reports from Baker Places.

Invoicing Process

The City requires Baker Places to submit on a monthly basis pre-formatted invoices with current month expenses or units of service.

Baker Places has two types of contracts with the City: fee-for-service and cost reimbursement. Under the two fee-for-service contracts, which are the largest contracts with DPH, the department reimburses Baker Places for the number of units of service it provides at the contracted unit rate. Under the remaining eight cost reimbursement contracts, the department reimburses Baker Places on a monthly basis for its actual expenditures, as long as they are within budget and related to providing contracted services. The contracts include city-approved formatted invoice templates with completed budgeted amounts for each program covered by the contract. Baker Places proposes a budget for each of its city contracts; the contract budget is approved by the City at the time the contract is negotiated.

Fee for Service Invoice Process. Baker Places is required to submit a monthly invoice listing the units of service provided for those contract programs that DPH reimburses on a fee-for-service basis. Baker Places keeps track of the units of services it provides in its own database. It also enters the same data into a database maintained by the City. At the beginning of each month, Baker Places prepares and submits the fee-for-service contract invoices for services it provided the previous month by accumulating the data from its database. At the end of the month, the City sends to Baker Places a monthly report from the City's database showing the total number of units of service per client. Baker Places ensures that the City's monthly report matches Baker Places' monthly report.

Cost Reimbursement Invoice Process. Baker Places is required to submit a monthly invoice listing expenditures for each contract program for which it is reimbursed on a cost basis. Before the 15th of each month, Baker Places submits cost reimbursement contract invoices for the previous month. To do this, it obtains cost data using profit and loss detail reports for each program from its Quickbooks accounting system. We should note that each contract

program may have “subprograms” and each of those subprograms has different funding sources. A separate invoice, each with its own budget, must be submitted for each funding source.

Contract templates for cost reimbursement invoices include categories of expenditures for Baker Places to charge its costs, including direct and indirect costs. Direct costs consist of personnel costs (salaries and fringe benefits) and operating expenditures. For all the sample invoices we reviewed, operating expenditures consisted of six or seven subcategories. Each subcategory listed on the invoice defines, parenthetically, the specific expenditures allowed in each subcategory. For example, for the subcategory “Occupancy”, the allowable expenditures include rent, utilities, building maintenance, supplies and repairs. Baker Places charges indirect costs at an agreed-upon percentage of direct expenditures, usually 10 to 12 percent. If federal funds are used to reimburse costs, the allowable percentage for indirect costs is less.

Objectives

The objectives of this audit were to evaluate Baker Places’ accounting practices and to determine whether the agency has adequate policies and procedures, systems, and controls in place to correctly track, record, and charge its expenditures to contracts awarded by DPH.

Scope and Methodology

The scope of our audit included contracts between Baker Places and DPH for fiscal year 2006-07. To accomplish our objectives, we performed the following procedures:

- Interviewed Baker Places’ administrative personnel and reviewed the accounting, billing, and payroll practices currently in place.
- Reviewed selected contracts and judgmentally selected a sample of Baker Places’ contract invoices submitted from July 1, 2006, through December 31, 2006, to test them for accuracy and to test Baker Places’ financial controls to determine whether they are working effectively.
- Reviewed final invoices for fiscal year 2006-07 for the sample contracts selected to determine whether Baker Places corrected the errors we initially found.

We did not assess the effectiveness or success of the Baker Places programs funded by the City.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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AUDIT RESULTS

Summary

Baker Places made errors in its contract invoices submitted to DPH by not consistently charging its expenditures to the proper invoice categories; failing to charge almost \$17,000 in payroll costs to a contract ended December 31, 2006, and instead charging those costs to a different contract; and erroneously charging workers compensation and depreciation expenditures. However, after we alerted Baker Places to the errors, it discontinued charging workers compensation and depreciation expenditures to operating costs in its final invoices submitted for the fiscal year 2006-07.

Baker Places also did not always follow DPH policy by requesting changes to its contract budgets either through contract modifications or budget revisions. In fact, there appears to be confusion among DPH staff and Baker Places staff as to when budget revisions are required because the policy can be interpreted in different ways.

Further, Baker Places did not have evidence to show that it correctly allocated staff salaries for those staff who work in multiple federally-funded programs. The federal Office of Management and Budget Circular A-122 (OMB Circular A-122) cost principles require that the distribution of salaries to federal awards be supported by personnel activity reports, such as timesheets. However, Baker Places does not require its staff to designate time worked on different programs on its timesheets.

Finally, DPH's contract invoices are overly complex for certain programs, and ultimately may not always provide a realistic picture of Baker Places' program expenditures. Simplifying DPH's invoices by reducing the number of invoice categories and allowing one master invoice and budget per program could reduce the risk that Baker Places will not consistently or correctly record their expenditures on the invoices, and more than likely would reduce the time it takes for Baker Places to prepare its invoices.

Baker Places Did Not Consistently Charge its Expenditures

For 8 of the 13 cost reimbursement invoices that we selected for testing, Baker Places did not consistently charge its expenses to the proper invoice categories.

Some invoice inconsistencies were deliberate and others were simply errors or oversight.

Some of the invoice inconsistencies were deliberate charges to incorrect expenditure categories that DPH managers verbally approved for the purpose of allowing Baker Places to stay within the budgeted expenditures for certain categories. By allowing this, however, the expenditure categories no longer reflect the actual costs in those categories; if these expenditure categories are used to formulate budgets for subsequent years, the errors are perpetuated. According to DPH's Community Behavioral Health Services' Invoice Procedures Manual, an operating expenditure category budget can be exceeded up to the lesser of 10 percent or \$50,000, as long as the total budget is not exceeded. However, Baker Places charged some expenditures to incorrect categories even when the correct categories had not yet been exceeded.

When we inquired about these expenditure inconsistencies with the director of business and operations at Baker Places, she explained to us that the inconsistencies would have surfaced when the accounting manager reconciled the invoices to the general ledger at year-end. However, a more complete and timely review and correction of errors would provide up-to-date and accurate information for managers at both DPH and Baker Places. Further, although DPH program managers review the invoices for compliance with the budgeted amounts, program managers cannot be certain whether the agency accurately reported the amount of costs, and whether the agency used the correct invoice cost categories, without examining its general ledger detail.

Although a program may require submission of numerous invoices, each with individual budgets, the individual budgets are not required to be followed.

Our review of final invoices for the contracts we initially selected for our testing revealed that most final invoices still contained expenditures charged to incorrect invoice categories. In most cases, Baker Places charged the remaining budget amount for each expenditure category, including the salary category, in order to receive reimbursement for 100 percent of its invoice budgets, regardless of its actual general ledger expenditure and salary amounts. Baker Places staff stated to us, and a DPH program manager confirmed for us, that because each contract can have numerous invoices based on funding source and program location, Baker Places can invoice up to its budget limit if there are sufficient expenditures in the total contract program. However, we fail to see why the individual invoices that encompass one

program, for example, the Ferguson program¹ with 11 different monthly invoices, have their own detailed budgets if following the individual budgets is not required.

Simplifying the monthly invoices by reducing the categories and allowing one invoice and budget per program would help reduce the risk of errors

If allowed by relevant federal/state agencies or other stakeholders, simplifying the monthly invoices by reducing the number of invoice categories, and allowing one invoice and budget per program, would help to reduce the risk that Baker Places will make errors on its invoices and may also reduce the time it takes for Baker Places to prepare the invoices. According to a DPH program manager, numerous expenditure categories on its contract invoices are not required, although the cost data on these invoices may be useful. If so, Baker Places could provide that data for DPH from its general ledger upon request. However, it is time consuming for Baker Places to sort through, categorize, and calculate its general ledger expenditures within each program in order to complete the City's large number of invoices with numerous categories of expenditures on a monthly basis. This increases the risk of errors in Baker Places' invoices.

Recommendations

1. DPH should work with Baker Places to determine whether they can reduce and simplify the contract invoice expenditure categories to only two or three categories.
2. DPH should determine whether it can allow one master invoice and budget per program, with any additional invoices by funding source allocated electronically through a calculation from the master invoice spreadsheet.
3. Baker Places should consistently charge its expenditures to the proper categories as stated in its contract budgets.
4. Baker Places should provide, with its invoices, general ledger summary reports as supporting documentation, if requested by DPH.

¹ The Ferguson program has three components to its continuum of care: residential substance abuse treatment, supported housing, and rental subsidies. Each of these components is funded by various funding sources, resulting in Baker Places' submission of 11 different monthly invoices to DPH.

Baker Places Made Other Errors in its Invoices

Baker Places failed to charge almost \$17,000 of payroll expenditures to one funding source of its Integrated Services Network (ISN)-DPH program, invoiced some workers compensation costs as a direct operating expenditure and also a fringe benefit, and erroneously charged for depreciation expenditures. After we informed Baker Places of these errors, it discontinued invoicing workers compensation and depreciation expenditures. However, Baker Places improperly applied the almost \$17,000 of payroll expenditures to another, separate contract program, because it was not able to use those expenditures for the ISN-DPH program.

Payroll Costs Totalling Almost \$17,000 Not Charged to Proper Contract

While working with DPH program managers to adjust some of the invoices for one of its programs to ensure that federal funds were used before the City's general fund money, Baker Places failed to charge almost \$17,000 of payroll expenditures to a contract. Although Baker Places relies on its accounting manager's periodic comparisons of total recorded program expenditures to the total billed expenditures to identify any unbilled expenditures, the accounting manager did not conduct a review for this particular contract, although Baker Places discontinued the program effective December 31, 2006.

According to Baker Places' director of business and operations, a portion of this program continued after December 31, 2006, and the unbilled costs may be recovered through this program. Upon review of Baker Places' final invoices and general ledger, we found that these payroll costs were not included for reimbursement on any invoices for this contract, and were used for another, unrelated program contract.

Baker Places Inconsistently Charged Workers Compensation as a Direct Operating Cost or Fringe Benefit

Baker Places billed workers compensation costs as a direct operating expenditure in some of its fiscal year 2006-07 invoices for two programs. However, Baker Places also recovered workers compensation costs on other invoices through the fringe benefit overhead percentage allowed by DPH's contracts with Baker Places. When we alerted Baker Places to this inconsistency, it discontinued charging workers compensation as a direct operating cost, but did not correct its prior invoices for either of the two programs.

In the past, Baker Places recovered workers compensation costs as part of the agreed-upon overhead percentage of

25 percent for fringe benefits. However, the finance director at Baker Places explained that rising workers compensation costs had caused fringe benefits to exceed 30 percent of payroll for the previous two fiscal years, and therefore Baker Places had petitioned the department to increase the fringe benefit percentage rate from 25 percent to 30 percent. Instead of increasing the benefit percentage, the finance director stated that DPH agreed to reimburse workers compensation as a direct operating expenditure for fiscal years 2004-05 and 2005-06. DPH staff confirmed this but could not provide written documentation of this contract change approval. For fiscal year 2006-07, DPH policy changed to allow the true cost of workers compensation to be included in benefits.

When we reviewed sample invoices for three programs under two contracts and also mid-year reconciliations for these programs, we discovered that workers compensation continued to be included in 2006-07 invoices as a direct operating expenditure, even though the policy is to charge the true cost to benefits. Upon review of the final invoices for these three programs under two contracts, the June 2007 workers compensation costs were no longer included in the invoices as operating expenditures; however, Baker Places had not corrected its prior invoices to reflect the correct operating expenditure category totals.

Baker Places did not correct its prior invoices because the agency reviews its general ledger by program monthly to ensure that it has more expenditures in total than it has invoiced, although it does this across all subprograms and funding sources and across salaries and operating expenditures. Further, according to the finance director, total fringe benefits, including workers compensation, were still about 34 percent for 2006-07, but the contract invoices were not set up to allow Baker Places to charge actual fringe benefits exceeding the historical 25 percent.

*Baker Places Erroneously
Charged for Depreciation
Expense*

Baker Places erroneously included in all its fiscal year 2006-07 invoices for the Baker Supported Living Program Long Term (BSLP-LT) \$44,500 in depreciation expenses. According to the finance director, this occurred at the time of a new accounting system conversion, when all expenses for Baker Places' building at 214 Dolores Street were charged to the BSLP-LT program. However, the director of business and operations explained that the actual monthly

expenditure for a note payable, a cost allowed by DPH, should have been charged instead of the depreciation expense. Baker Places subsequently reduced its May and June 2007 invoice reimbursement by a total of \$14,067, the difference between the depreciation expense it charged and the actual monthly note payable expenditure it should have charged.

Recommendations

5. Baker Places should determine, and DPH should review, whether Baker Places has other expenditures for the ISN-Star program to replace the unallowed payroll expenditures of almost \$17,000, which belonged to another contract for the ISN-DPH program.
6. Baker Places should perform a detailed review of its invoices to enable it to identify erroneously charged expenditures before submitting the invoices to DPH.

Baker Places Did Not Request Contract Modifications or Budget Revisions for Changes To its Contract Budgets

Baker Places deviated from its contract budgets in three of the four cost-reimbursement contracts we reviewed, and did not always prepare budget revisions as required by *DPH Policies and Procedures Regarding Contract Budget Changes*. According to the *DPH Policies and Procedures*, a budget revision is allowed for any change in a negotiated and approved expenditure line item amount on any page of the budget, as long as the value of the change for each item is less than 10% of the total value of the program or exhibit that is affected by the change.² When we reviewed the final invoices for the programs we selected, Ferguson, ISN-Star & Camelot, and ISN-DPH, we noted that Baker Places invoiced most expenditure and salary categories up to 100 percent of the budget, regardless of whether it had actual expenditures in the specific categories or job titles. As stated in an earlier section of this report, this is because Baker Places only reviews its general ledger by program monthly to ensure that it has more expenditures than it has invoiced, and does this across all subprograms and funding sources, and across salaries and operating expenditures.

² By contrast, a contract modification is required for, among other changes, any movement of budgeted funds between personnel and operating expenses in an exhibit in excess of 10% of the certified exhibit budget or for any change in the scope of work or methodology. A contract modification requires approval by multiple departments and the Health Commission.

In addition, DPH did not require from Baker Places a contract modification for the ISN-DPH program we reviewed, where it was necessary for Baker Places to make a substantial change to part of the program funded with federal dollars in order to use an outside consultant instead of in-house staff. According to a program manager at DPH, the revised contract was to be managed by another city department, but ultimately this did not happen; DPH therefore prepared only a budget revision, which does not require the multiple department and Health Commission approval process.

DPH's Policy for Budget Revisions is Unclear

There appears to be confusion among DPH employees and Baker Places employees as to whether DPH's policy for budget revisions refers to funding source budgets ("any page of the budget", as stated above) or only to the total contract budget. On a few occasions where Baker Places staff informed DPH of changes to its budgets, DPH staff verbally approved the changes without requiring budget revisions. When we asked Baker Places and DPH staff when budget revisions are required, we were not given consistent answers.

Recommendations

7. Baker Places should prepare budget revisions for minor changes to its contract budgets, instead of misclassifying its invoiced expenditures.
8. DPH should clarify its policy concerning budget revisions to state whether changes to individual funding source invoices, or only to combined program invoices, require budget revisions.

Baker Places Did Not Have Documentation to Show It Correctly Allocated Payroll Costs

Baker Places did not have documentation to show that it correctly allocated payroll costs to its various programs for employees who work for multiple programs. Because many of Baker Places' programs are partially funded by federal money, the agency is subject to federal rules and regulations. According to the federal OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, allocation of salaries must be supported by personnel activity reports. Salaries, the largest expenditure for all Baker Places programs, are supported by employee timesheets. However, some employees work for two or more programs

or contracts and their costs are allocated to the programs at pre-determined percentages as stated in Baker Places' contracts with DPH. According to the director of business and operations, these percentages are not based on actual time spent on the program, but rather historical percentages. Nevertheless, it is possible for employees to track the time spent on each program and to record this time on their timesheets. By doing so, actual time could be charged to the programs.

Recommendation

9. Baker Places should require its employees who work in multiple programs to record their actual time worked for each program, so that employees' actual payroll costs could be charged to the appropriate programs.

APPENDIX A: DEPARTMENT AND AGENCY RESPONSES

Recommendation	Responsible Agency	Response
1. DPH should work with Baker Places to determine whether they can reduce and simplify the contract invoice expenditure categories to only two or three categories.	Department of Public Health	Concur. DPH will review contract invoices to determine if invoices can be simplified.
2. DPH should determine whether it can allow one master invoice and budget per program, with any additional invoices by funding source allocated electronically through a calculation from the master invoice spreadsheet.	Department of Public Health	DPH will review policies and procedures to determine if this recommendation can be implemented. However, current practice suggests this recommendation may be difficult to implement given that funding agencies require detailed documentation of expenditures. DPH uses funding-specific budgets and invoices to account for expenditures by funding source. This also serves as the contractual agreement with a vendor to ensure compliance with funding requirements. One master invoice or budget will not likely simplify accounting since each funding source requires a separate purchase order. In addition, a master budget or invoice may create additional accounting in order to reconcile expenditures by funding source.
3. Baker Places should consistently charge its expenditures to the proper categories as stated in its contract budgets.	Baker Places	Concur. The agency's Invoicing Policy and Procedures have been revised to provide stronger internal control over the process. However, Baker Places would greatly appreciate any possible consolidation and streamlining of categories to make this process less burdensome.
4. Baker Places should provide, with its invoices, general ledger summary reports as supporting documentation, if requested by DPH.	Baker Places	Concur. Baker Places consistently provides GL and all other supporting documents as requested by DPH and has opened its books to departmental representatives on a number of occasions.

Recommendation	Responsible Agency	Response
<p>5. Baker Places should determine, and DPH should review, whether Baker Places has other expenditures for the ISN-Star program to replace the unallowed payroll expenditures of almost \$17,000, which belonged to another contract for the ISN-DPH program.</p>	<p>Baker Places</p>	<p>Baker Places will undertake this exercise if DPH so directs us and if CCSF determines that we are still within an allowable window of time to do so.</p>
<p>6. Baker Places should perform a detailed review of its invoices to enable it to identify erroneously charged expenditures before submitting its invoices to DPH.</p>	<p>Baker Places</p>	<p>Concur. Please refer to response to Item #3, as this is the same issue. Additionally, it should be noted that Baker Places has amply demonstrated that its actual, allowable costs and expenditures, in the aggregate, agree to or exceed the amounts invoiced to the City.</p>
<p>7. Baker Places should prepare budget revisions for minor changes to its contracts, instead of misclassifying its invoiced expenditures.</p>	<p>Baker Places</p>	<p>Baker Places will continue to seek and follow consultation and instruction from DPH on issues of contract budget revisions and modifications.</p>
<p>8. DPH should clarify its policy concerning budget revisions to state whether changes to individual funding source invoices or only to combine program invoices require budget revisions.</p>	<p>Department of Public Health</p>	<p>DPH does not concur. Long-standing DPH practice requires a budget revision for changes between program budgets. However, DPH practice does not require a budget revision for a change in funding sources within a single program. The contract reviewed by the Controller was for a single program where changes were made in funding sources and did not exceed 10% of the total line item. A budget revision is not required if total expenditures for the program do not exceed 10% of the budget line items. There were changes made in funding sources for this contract primarily to maximize non-general fund sources, a common occurrence that does not require a budget revision.</p>

Recommendation	Responsible Agency	Response
9. Baker Places should require its employees who work in multiple programs to record their actual time worked for each program so that employees' actual payroll costs could be charged to the appropriate programs.	Baker Places	Concur. A new timesheet and reporting procedure was instituted effective 7/1/07.

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APPENDIX B: DEPARTMENT OF PUBLIC HEALTH RESPONSE

City and County of San Francisco



Department of Public Health

Gregg Sass
Chief Financial Officer

April 29, 2008

Ben Rosenfield
Controller
City Hall
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102

Dear Mr. Rosenfield,

Attached is the response from the Department of Public Health on the draft audit report on the financial controls over contracts awarded to Baker Places, Inc. If you have any questions, please call Anne Okubo at 554-2857.

Sincerely,

A handwritten signature in black ink, appearing to read "Gregg Sass".

Gregg Sass
Chief Financial Officer

Attachment

cc: Peg Stevenson, City Services Director, City Services Audit Division
Robert Tarsia, Deputy Audits Director City Services Audit Division
Elisa Sullivan, Audit Manager, City Services Audit Division
Anne Okubo, DPH
Wolfgang Stuwe, DPH

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APPENDIX C: BAKER PLACES' RESPONSE

May 28, 2008

Robert Tarsia
Deputy Audit Director
City Services Auditor Division
City and County of San Francisco
Office of the Controller
1 Dr. Carlton B. Goodlett Place
Room 316
San Francisco, CA 94102-4694



Dear Mr. Tarsia:

This letter is by way of response to issues raised in the audit of Baker Places Inc, performed by Ms. Elisa Sullivan and Ms. Helen Vo of your office.

Enclosed you will find our responses to your recommendations.

While we are certainly glad to bring this process to a close, we also want to take this opportunity to commend and thank Ms. Sullivan and Ms. Vo for their unfailing courtesy and professionalism, and their diligent and sincere efforts to fully understand the complexity of the contracting process between Baker Places and the City and County of San Francisco.

Sincerely,

A handwritten signature in black ink, appearing to read "Jonathan Vernick".

Jonathan Vernick
Executive Director

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