



County of Allegheny

Office of the Controller

**HILL HOUSE ASSOCIATION
REPORT ON CONTRACT
COMPLIANCE PROCEDURES
FOR THE PERIOD JUNE 1, 2008
THROUGH OCTOBER 31, 2009**

(Non-Audit Service)

May 25, 2010

**County of Allegheny
Office of the Controller
Mark Patrick Flaherty
Controller**

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MARK PATRICK FLAHERTY
CONTROLLER

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GUY A. TUMOLO
DEPUTY CONTROLLER

March 10, 2010

Mr. Ramon Rustin
Warden
Allegheny County Jail
950 Second Avenue
Pittsburgh, PA 15219

SUBJECT: Compliance Procedures Applied to Contracts #92446 and #103663
Between Hill House Association and Allegheny County Jail
for the Period June 1, 2008 through October 31, 2009

Dear Warden Rustin:

We have applied compliance procedures to contracts #92446 and #103663 between the Allegheny County Jail and Hill House Association. We performed these compliance procedures to ensure that Hill House Association was in compliance with the scope and terms of the agreements. Our compliance procedures are a non-audit service and covered the period from June 1, 2008 through October 31, 2009. This engagement was not conducted in accordance with Generally Accepted Government Auditing Standards.

The application of our compliance procedures revealed that Hill House Association did not conduct programmatic monitoring activities and provided inadequate fiscal accountability for the ex-offender mural program. This resulted in approximately \$31,444 in costs that were not allowable or inadequately supported being charged to the Jail's contracts. In addition, Hill House did not comply with certain other contract provisions during the period to which we applied our contract compliance procedures. Also, as of the date of this report, Hill House has submitted a final voucher to the Jail totaling \$75,000. We have advised the Jail to not pay this voucher until adequate documentation is submitted by Hill House.

In the future, Hill House Association needs to ensure that management reads and fully understands contracts prior to their execution. If Hill House Association is unable or unwilling to provide the services required by a contract, management should not sign and execute the contracts. Hill House Association should also revise its policies and procedures to facilitate proper organizational responses to fraud allegations.

Warden Ramon Rustin
March 10, 2010

We believe that the implementation of our recommendations will improve Hill House Association's compliance with any future County Jail contracts. We also recommend that these matters be referred to the District Attorney. The results of the application of our compliance procedures are provided in the attached report.

During the performance of our compliance procedures, we also noted significant deficiencies in the Jail's administration of contracts #92446 and #103663 related to the contracting process and contract monitoring. We recommend that the Jail implement our recommendations contained in the report to facilitate the proper administration of contracts in the future.

We would like to thank the management and staff of Hill House Association and the Jail for their courtesy and cooperation during the performance of our procedures.

Very truly yours,



Lori A. Churilla
Assistant Deputy Controller, Auditing



Mark Patrick Flaherty
Controller

cc: Honorable Richard Fitzgerald, President, County Council
Honorable William Russell Robinson, County Council
Honorable Dan Onorato, Chief Executive
Mr. James M. Flynn, Jr., County Manager
Ms. Amy Griser, Budget Director
Mr. Ramon Rustin, Warden, Allegheny County Jail
Allegheny County Jail Oversight Board
Mr. Stephen A. Zappala Jr., District Attorney
Mr. Joseph Catanese, Director of Constituent Services
Ms. Jennifer Liptak, Budget Director, County Council
Mr. Victor Roque, President and CEO, Hill House Association
Mr. Guy A. Tumolo, Deputy Controller
Ms. Pamela Goldsmith, Communications Director

EXECUTIVE SUMMARY

Purpose of Procedures: We performed compliance procedures to ensure that Hill House Association (also referred to hereafter as “Hill House”) was in compliance with the scope and terms of contracts #92446 and #103663 for the period June 1, 2008 through October 31, 2009.

Background: Hill House Association is a nonprofit organization that provides social services to children, adults and seniors who reside in urban areas. Allegheny County entered into contracts #92446 and #103663 with Hill House for the years ended May 31, 2009 and 2010, respectively. Under the contracts, Hill House was to manage and implement, or supervise the management and implementation, of Allegheny County Jail’s ex-offender mural program. The maximum amount of each contract was \$100,000, for a total of \$200,000.

Results in Brief: While performing our procedures, we found that Hill House did not conduct programmatic monitoring, did not provide adequate fiscal accountability for the ex-offender mural program, and did not comply with certain other contract requirements. Specifically, we found that:

Finding #1

- Hill House did not obtain prior written permission to subcontract for activities contained in the contract, and did not obtain the Warden’s approval of the individual selected to administer the ex-offender mural program. Both of these items are provisions of the contract.
- Hill House did not supervise the individual selected to administer the ex-offender mural program as required by the contracts. Hill House could not identify the program’s ex-offender participants, which significantly impairs the Hill House’s ability to provide assurance that program objectives were met.

Finding #2

- The commingling of ex-offender mural program funds and activities with those of other programs significantly hampered Hill House’s ability to monitor the expenditures of the Jail’s ex-offender mural program funds.
- We identified approximately \$31,444 of costs charged to the County contracts that were not allowable or not adequately supported and are owed back to the County Jail.

EXECUTIVE SUMMARY

- After an allegation of fraud related to the County ex-offender mural program was received, the Hill House did not commence programmatic monitoring, strengthen its fiscal procedures or monitoring, or notify the Allegheny County Jail of the fraud allegation.

Finding #3

- Hill House did not comply with contract provisions that pertain to billing, compliance with Jail policies and procedures, and ensuring that certain ex-offenders remit 10% of their compensation toward unpaid court costs, fines, restitution, or Family Division support payments.

While performing our procedures, we also identified weaknesses in the Allegheny County Jail's contracting process and contract monitoring with respect to contracts #92446 and #103663. Specifically, we found that:

Finding #1

- Hill House and the Allegheny County Jail appear to have a different understanding of how the ex-offender mural program should be administered than what is conveyed by contracts #92446 and #103663.
- Contracts #92446 and #103663 also lack several key elements that would have increased the likelihood of proper administration of the ex-offender mural program, such as clearly stated program objectives, an objective means to measure progress against those objectives, and a requirement to measure progress toward the objectives.

Finding #2

- The Allegheny County Jail did not conduct adequate monitoring of contracts #92446 and #103663. Consequently, opportunities to eliminate or reduce program payments for inappropriate or inadequately supported program expenditures, to reduce potential risks to public safety, to recover costs, to identify and investigate potential fraud, and to identify other matters that impacted the administration of the ex-offender program were missed.

Recommendations:

We recommend that Hill House management:

Recommendation #1

- Carefully read contracts prior to executing them, and refuse to engage in contracts if Hill House is unable or

EXECUTIVE SUMMARY

unwilling to perform the duties required by the contracts.

- Ensure that it receives copies of the executed contracts to which it is a party, so that significant compliance requirements can be identified and compliance with those requirements can be monitored.

Recommendation #2

- Comply with all contract requirements to ensure that the ex-offender mural project is administered properly.
- Immediately pay to the County \$31,444, the approximate amount of costs charged to the ex-offender mural program that were not allowable or not adequately supported.
- Revise Hill House's policies and procedures to facilitate proper organizational responses to fraud allegations.

Recommendation #3

- Review the executed contracts and ensure compliance with the terms of the contract.

We recommend that the Allegheny County Jail administration:

Recommendation #1

- Improve pre-contract communications to ensure that there is an accurate mutual understanding of program requirements and contractor responsibilities.
- Structure contracts to match the mutual understanding of the parties and in a manner that facilitates proper administration of the program and completion of the program objectives.
- Ensure that program objectives are fully developed and clearly communicated in the contracts.

Recommendation #2

- Assign responsibility for monitoring each contract to a specific Jail employee and provide that employee with adequate time to perform their duties. The objectives of each contract, key deliverables, and significant compliance requirements should be monitored, and a framework for communication of monitoring results established to help ensure that sufficient follow-up action is taken, when appropriate.

I. Introduction

Background

Hill House Association is a nonprofit organization that provides social services to children, adults and seniors who reside in urban areas. Allegheny County entered into contracts #92446 and #103663 with Hill House for the years ended May 31, 2009 and 2010, respectively. Under the contracts, Hill House was to manage and implement, or supervise the management and implementation, of the County Jail's ex-offender mural program. The maximum amount of each contract was \$100,000, for a total of \$200,000. The Commissary fund contains the commissions earned on the items purchased by inmates from the Commissary. The revenue in this fund was used to fund the Ex-Offender Art Mural project.

Hill House Association is required by the contract to provide a roster of ex-offender candidates for program consideration to be evaluated by the Jail. The Jail administration is to ensure that any ex-offenders with criminal histories which include sex offenses, assaultive behaviors and/or Megan's Law dispositions are excluded from the selection process.

The contract also requires Hill House Association to ensure that ex-offenders participating in the mural project pay 10% of their earnings toward pending court costs, fines, restitution and/or Family Division support. The Jail is to provide Hill House with the names and court docket numbers of the ex-offender participants which are required to comply with this stipulation.

Hill House Association processed the Ex-Offender Mural Program payments. The disbursement process is typically initiated by a program staff using a check requisition or invoice received. The check requisition or invoice must be approved by the program manager. All requisitions flow through the accounting clerk and Chief Financial Officer, who ensure that the item has been coded to the proper budget category, that funds are available for the applicable budget line item, and that the item has been approved by the program manager. The requisition or invoice is coded to proper general ledger expense account and supporting documents are attached. The approved item is then forwarded to the accounts payable clerk for processing. Once the checks are printed, they are matched with the invoice or requisition and are then given to the Chief Financial officer for review and first signature. After review and first signature from the Chief Financial Officer, checks are forwarded to the Executive Vice President for a second signature. After checks have been signed, they are sent to back to the accounts payable clerks for distribution.

II. Scope and Methodology

We applied compliance procedures to contracts #92446 and #103663 between the Allegheny County Jail and Hill House to ensure that Hill House was in compliance with the scope and terms of the contracts. Our compliance procedures covered the period from June 1, 2008 through October 31, 2009.

Specifically, we performed the following procedures:

- Interviewed Hill House personnel to gain an understanding of the processes and controls in place to ensure financial accountability for contract services and compliance with its County contracts and applicable laws and regulations.
- Interviewed Hill House management and Jail personnel to gain an understanding of the monitoring activities performed to identify deficiencies in the operation of internal controls, the reporting of contract activities, and compliance with its County contracts and applicable laws and regulations.
- Reviewed the minutes of Hill House Board meetings for the period June 1, 2008 through October 31, 2009.
- Examined records of Hill House that were relevant to the administration of the contracts to determine compliance with the contracts.
- Examined, on a test basis, the documentation supporting costs claimed for payment or reimbursement under the contracts to verify that the costs were allowable costs incurred to satisfy the objectives described in the scope of services.
- Tested, on a limited basis, Hill House's compliance with applicable laws and regulations and the provisions of contracts #92446 and #103633.

We performed these procedures during January 2010. We provided a draft copy of this report to the President and CEO of Hill House and the Jail's Warden for comment (see pages 20-27).

III. Findings and Recommendations

Hill House Association Finding #1
Failure to Conduct Programmatic Monitoring

Section 10 of Allegheny County Jail contracts #92446 and #103633 states that Hill House (“Contractor”) cannot subcontract any rights or duties under the agreement without prior written permission from the Warden. Section 1, paragraph A of the contracts indicates that the person or persons selected by Hill House to manage, oversee, and implement the ex-offender art mural program must be approved by the Warden. Section 1, paragraph B of the contracts requires Hill House to supervise the person(s) providing services pursuant to the agreements.

Our review revealed that Hill House did not obtain prior written permission from the Warden to engage the individual who administered the art mural program as a subcontractor or to have that individual administer the art mural program. Hill House also did not supervise the individual as required.

It appears that this condition occurred because management of Hill House did not acknowledge the functions that Hill House was expected to perform as a result of its acceptance of the contracts, although those functions were clearly stated in the contracts. Hill House’s management asserts that Hill House did not receive copies of the executed contracts. Management indicated that Hill House acted only in the capacity of a fiscal agent because that was its understanding of the arrangement. Hill House management also asserts that it did not officially select the individual who administered the art mural program. However, Hill House entered into a fiduciary agreement with the person selected to administer the program. The fiduciary agreement did not incorporate by reference the Allegheny County contracts or contain the compliance requirements listed in the contracts as was required by Section 4, paragraph B of contracts #92446 and #103663.

Because Hill House did not view its role to be that of a prime contractor and did not supervise or monitor programmatic activities, it did not comply with certain contract provisions (see finding #3). Hill House could not identify the ex-offenders that participated in the program, and therefore could only provide limited assurance that the program objectives were met (such as murals were painted). In addition, the County ex-offender mural program funds and activities were commingled with those of other programs, including programs that provide youth services (see finding #2). Without Act 33 and 34 clearances, ex-offenders

III. Findings and Recommendations

should not have been working with youths. Hill House cannot provide assurance that ex-offenders did not work with youths on the same mural projects, and cannot provide assurance that the required Act 33 and 34 clearances were obtained, if required. In addition, lack of knowledge about program activities limited Hill House's ability to determine whether costs submitted for payment or reimbursement under the County contracts were actually related to the ex-offender mural program (see finding #2).

Recommendations

We recommend that management of Hill House carefully read contracts prior to executing them, and refuse to engage in the contracts if Hill House is unable or unwilling to perform the duties required by the contracts.

In addition, Hill House needs to strengthen contract monitoring activities of the Jail's Art Mural program. In particular, Hill House should:

- Ensure that it has copies of the executed contracts to which it is a party, so that significant compliance requirements can be identified and compliance with those requirements can be monitored.
- Obtain written permission from the Jail's Warden if the monitoring of the program is subcontracted to an agency other than Hill House.
- Maintain a separate accounting for the Jail's ex-offender mural program.
- Maintain adequate supporting documentation for reimbursement under this contract that shows that the expenditures relate to the mission of the contract.
- Properly identify the ex-offenders who participated in the program by including their full name, social security number and date of birth.
- Obtain documentation from the Jail to ensure that the ex-offenders participating in the mural project do not have histories involving sex offenses, assaultive behaviors or Megan's Law dispositions.

III. Findings and Recommendations

Hill House Association Finding #2
Inadequate Fiscal Accountability

The individual, or subcontractor selected to administer the ex-offender mural program received funding from a variety of sources other than Allegheny County to conduct programs that involve the painting of murals during the period to which we applied our procedures. Hill House also served as a fiscal agent with respect to those other funds. The subcontractor and Hill House established an overall program budget for each of the years ended June 30, 2009 and 2010, but those budgets were based on a different period and not reconcilable to the Jail's program budgets. In accounting for program expenses, overall program expenditures were generally not allocated to specific funding sources. Hill House management indicated that the Jail's participation in program costs should be considered to be the Jail's pro rata share of each overall program cost. Although Hill House was not contractually required to keep the Jail's ex-offender mural program funds in a separate bank account, the commingling of the Jail's ex-offender mural program funds with other program funds and the use of an alternate budget period to track the funds impaired Hill House's ability to monitor the expenditures of the Jail's ex-offender mural program funds.

Hill House provided the subcontractor who was selected to administer the program with a copy of the Hill House requisition form, which was to be completed for each program expenditure and submitted to Hill House for payment or reimbursement. The review of requisition forms conducted by Hill House was focused on the subcontractor's approval of program costs and not necessarily whether the costs were adequately supported by documentation or related to the program. This is significant, because the subcontractor who administered the ex-offender mural program also owns a for-profit design studio. This condition, combined with the lack of programmatic monitoring (see finding #1), reduces Hill House's ability to provide assurance that costs claimed for payment or reimbursement were actually related to the Jail's ex-offender mural program.

We identified eight (8) instances, representing an aggregate amount of \$36,858, for which program compensation costs paid or reimbursed were not supported by documentation other than the requisition form. We also identified one (1) instance where a credit card receipt was provided as support for items purchased to be reimbursed. The credit card receipt did not provide an

III. Findings and Recommendations

itemization of the items that had been purchased, only the total amount of the purchase, \$600. In addition, we determined that some costs claimed were not allowable program costs. Legal fees of \$1,375 to establish a 501(c)(3) organization and invoices for purchased equipment in the amount of \$4,854 had been charged to the program. The legal fees are not related to the administration of the ex-offender mural program, and the ex-offender mural program budget did not provide for the purchase of equipment, only equipment rental.

The fiduciary agreement between Hill House and the subcontractor selected to administer the ex-offender mural program provided for Hill House to receive a 10% administrative fee (although 8%, or \$37,418, of the overall program costs were actually charged) to cover the costs associated with accounting and recordkeeping. An administrative fee was not included in the Jail's contract budgets, and would otherwise only be an allowable program cost if supported by historical cost data or an equitable cost allocation plan.

The costs described above that were not allowable or not adequately supported were costs of the overall program administered by Hill House. As stated earlier, Hill House's management indicated that the Jail's participation in program costs should be considered to be the Jail's pro rata share of each overall program cost. As a result, we were only able to apply our procedures to the overall program costs. We disallowed the County's pro rata share of those costs that were not allowable costs under the County Jail's ex-offender program or not adequately supported. Based on data supplied by Hill House, we estimate the Jail's share of each overall program cost is approximately 38.77%. Accordingly, the aggregate amount of the costs that were charged to the Jail's contracts of those that were determined to be not allowable or not adequately supported as described in the preceding paragraphs was approximately \$81,105 of which 38.77% or \$31,444 is owed back to the County Jail.

In addition, Hill House's management acknowledged its receipt of a complaint involving an allegation of fraud involving the subcontractor who was administering the program. Hill House management asserts that the complaint was received prior to the filing of a criminal complaint by the person making the claim, and therefore no further action with respect to the alleged fraud was taken by Hill House. The amount involved in the fraud complaint was \$250. However, the fraud allegation and the evidence presented should have triggered increased scrutiny of the program

III. Findings and Recommendations

and the expenditures submitted to Hill House for payment or reimbursement. Hill House did not begin programmatic monitoring, and there is no evidence that Hill House made any attempt to strengthen its fiscal procedures or monitoring after the complaint was received. Hill House also did not notify the Allegheny County Jail of the alleged fraud.

As a result of the aforementioned conditions, costs that were not allowable and costs that were not adequately supported were charged to the ex-offender mural program. We were also unable to determine whether contract funds received from the Allegheny County Jail were used to provide programs that involved the painting of murals but did not necessarily involve the participation of ex-offenders, or used for other purposes not contemplated by the contracts.

Contract #103663 specifies that Hill House should invoice \$8,333 per month and include on the invoice a description of the program's activities. Hill House submitted a final invoice dated 9/30/09 for \$75,000 under contract #103663. Hill House management indicated that all of the contract funds were spent before the \$75,000 invoice was submitted to the Jail, which is why Hill House requested an accelerated payment for the remainder of the contract amount. We asked Hill House to provide support for the \$75,000 final invoice as part of our review, but we were unable to determine from the support provided whether the costs claimed for reimbursement related to the ex-offender mural program contemplated by contract #103663 or other program(s). Before the final contract payment is issued to Hill House, it is our expectation and requirement that Hill House determine which overall program costs actually relate to the ex-offender mural program, identify them, and provide adequate support for those costs to the Jail.

Recommendations

We recommend that the management of Hill House comply with all contract requirements to ensure that the ex-offender mural project is administered properly. We also recommend that Hill House immediately pay \$31,444 back to the Jail. That is the approximate amount charged to the County Jail contracts that was not allowable or not adequately supported.

To facilitate the issuance of the final payment under contract #103663, we recommend that Hill House determine which overall program costs actually relate to the ex-offender mural program,

III. Findings and Recommendations

identify them, and provide adequate support for those costs to the Jail. We further recommend that Hill House revise its policies and procedures to facilitate proper organizational responses to fraud allegations.

Findings and Recommendations

Hill House Association Finding #3

Noncompliance with Other Contract Requirements

Section 1, paragraph E of the Allegheny County Jail contracts required the agency or subcontractor providing services pursuant to the agreements to attend an orientation program approved by the Warden relating to the rules and procedures of the Jail. Section 1, paragraph D of the contracts requires the agency or subcontractor to adhere to the rules and regulations of the Jail, when and where applicable. Hill House did not require the subcontractor who administered the program to attend an orientation program, and cannot verify that such an orientation program was held. As a result, Hill House cannot provide assurance that the subcontractor that administered the ex-offender program was knowledgeable of the Jail's policies and procedures, when and where applicable.

Section 1, paragraph I of the contracts required Hill House to provide Allegheny County Jail administration with a list of ex-offender candidates so that such candidates with criminal histories involving sex offenses, assaultive behaviors, or Megan's Law dispositions could be excluded from participation in the program.

Section 1, paragraph J of the contracts requires Hill House to ensure that ex-offender program participants pay at least 10% of their earnings toward unpaid court costs, fines, restitution, and Family Division support. Section 1, paragraph K of the contracts requires Hill House to send the Jail receipt copies of such payments made by the ex-offender program participants.

Hill House did not provide Jail administration with a list of ex-offender candidates as required. As a result, it is possible that ex-offenders with inappropriate backgrounds participated in the program. The Jail checked the criminal histories of the individuals on the roster of overall program participants provided by Hill House at our request, and advised us that two of the individuals that participated in the program may have been convicted sex offenders. This could not be confirmed because Hill House was unable to or did not provide social security numbers or dates of birth for the individuals on the roster. The Jail was unable to provide us with the names of the possible sex offenders because their identities were not confirmed. Also, because Hill House did not provide Jail administration with a list of ex-offender candidates as required, the Jail was unable to provide Hill House with a list of ex-offenders required to comply with the 10% payment requirement. Consequently, Hill House took no action to ensure

Findings and Recommendations

that the 10% payments were made, and therefore was unable to provide the Jail with receipt copies as required.

Section 2, paragraph B of the contracts indicates that the monthly invoices submitted to the Jail by Hill House should provide a summary of the services provided during the month. Because Hill House did not conduct programmatic monitoring activities, it did not have adequate knowledge of the program accomplishments (or lack thereof) to be able to provide a summary of the services provided, and did not provide such a summary on a monthly basis as required.

Recommendations

We recommend that management of Hill House review the executed contracts and ensure compliance with the terms of the contract. Specifically, Hill House should:

- Ensure that the subcontractor and Hill House arrange for an orientation to be provided by the Jail.
- Provide a list of ex-offenders to the Jail to ensure that the individuals' background histories do not violate the terms of the contract.
- Ensure that the ex-offenders are paying 10% of their income toward fines and costs as required.

Findings and Recommendations

Allegheny County Jail Finding #1

Weaknesses in the Contracting Process

Based on our discussions with Hill House management, it did not have a good understanding of the duties that the Jail expected Hill House to perform under contracts #92446 and #103663. Hill House's management represented to us that the Jail's Administration and the individual who administered the Jail's ex-offender mural program jointly solicited the participation of Hill House in the program. If management's assertion is correct, the joint solicitation of Hill House's participation may have contributed to Hill House's misinterpretation of its responsibilities under the contracts, as contracts #92446 and #103663 specify that Hill House is responsible for identifying a subcontractor to administer the ex-offender mural program and having that individual approved by the Warden. If Jail administration selected the subcontractor to administer the program, it may have given Hill House the impression that certain contract requirements had been complied with or would not be enforced.

The Controller's Office was not a party to the contract negotiations, and we therefore do not know the extent or subject matter of verbal communications between Jail administration and Hill House prior to the execution of the contracts. However, it appears that the Jail administration's verbal communications were inaccurate or significantly deficient, since Hill House's understanding of its duties varied so significantly from what was required by the contracts.

We also noted that while the contracts can be legally enforceable, there are a number of weaknesses in design of the contracts that significantly reduce the likelihood that the ex-offender mural program would be properly administered and that the objectives of the program would be met. The contracts do not:

- Clearly state the objectives of the ex-offender mural program,
- Provide an objective means for measuring the accomplishments of the program, or
- Require Hill House to submit a final report on program outcomes.

The lack of clearly stated program objectives may have led Hill House to believe that it was acceptable to commingle the County's

Findings and Recommendations

ex-offender mural program accounting and activities with those of other programs.

The second County Jail contract contained no budget, and neither contract required Hill House to submit documentation to support program expenditures. These conditions subjected the Jail to an increased risk of inappropriate expenditures charged to the program. The contracts also did not specify an amount to be provided to cover indirect costs or include compensation to Hill House for administering the contracts. This may have contributed to Hill House charging an arbitrarily-determined administrative fee to the contract without support or approval.

Recommendations

We recommend that the Jail administration attempt to improve its communication with contractors prior to the execution of contracts to ensure that there is an accurate mutual understanding of the responsibilities of the contractor. The contracts should also be reviewed by Jail administration to ensure that they are written in a manner that facilitates the completion of program objectives and proper administration of the program and are consistent with the understanding of the parties developed during the contracting process.

Findings and Recommendations

Allegheny County Jail Finding #2 Inadequate Contract Monitoring

During the performance of our contract compliance procedures, we were not able to obtain adequate assurance that the County Jail's contract funds were used solely for the Jail's ex-offender mural program and that objectives of the program were met. Management of Hill House represented to us that to the best of its knowledge, that

- Jail administration has not informed them of a Jail employee who was responsible for monitoring Hill House's administration of contracts #92446 and #103663,
- Hill House has not been contacted by the Jail administration in connection with monitoring activities, and
- Jail administration never advised Hill House of any deficiencies in the manner in which it administered the contracts.

We also did not observe during the performance of our procedures any evidence to indicate that the Jail administration had conducted programmatic monitoring activities. Based on these conditions and the results of our compliance procedures, we have determined that adequate monitoring of contracts #92446 and #103663 was not performed, and that significant improvement in Jail Administration's monitoring of future contracts is necessary.

Had adequate monitoring of the contracts been performed, Jail administration would have:

- Determined that it was not provided with a list of candidates for participation in the ex-offender mural program.
- Followed up with Hill House to obtain the ex-offender candidate list to ensure that candidates with criminal histories involving sex offenses, assaultive behaviors, or Megan's Law dispositions were prevented from participating in the program in the interest of public safety.
- Provided Hill House with a list of ex-offender program participants who were responsible for remitting 10% of their program compensation to cover court costs, fines, restitution, and Family Division support.
- Determined that it did not receive receipt copies of such payments made by ex-offender program participants from Hill House.

Findings and Recommendations

- Prevented Hill House from commingling the Jail's ex-offender mural program accounting and activities with those of other programs.
- Determined whether the objectives of the ex-offender mural program were being met and verified that contract funds spent were benefitting ex-offenders and not other groups.
- Observed that the required summary of program activities was missing from the monthly invoices submitted by Hill House.
- Identified that the Hill House was not monitoring programmatic activities.
- Identified that Hill House's process for issuing program payments was inappropriate, and that Hill House did not have adequate documentation to support certain program costs claimed.
- Required Hill House to communicate with Jail administration regarding allegations of fraud related to the Jail's ex-offender mural program, and adequately followed up on any such allegations.
- Identified that Hill House was charging an arbitrarily-determined administrative fee to the contract without approval or support, and may have at that point determined the amount of cost recovery or "compensation" to which Hill House was entitled.

Recommendations

We recommend that the Jail administration appoint a specific employee to monitor the administration of each future contract, including the monitoring of programmatic activities. Individuals who are assigned responsibility for monitoring the administration of contracts should be given adequate time to perform their duties. Contract monitors should identify the objectives of each contract, key deliverables, and the significant compliance requirements to serve as the basis for their monitoring. There should be a communication framework established to help ensure that the Jail's administration takes appropriate action when contract monitors identify conditions that require remediation.

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4th March 2010

Ms. Lori Churilla
Assistant deputy Controller-Auditing
County of Allegheny
Office of the Controller
104 Court House
436 Grant Street
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Reference: Contract #92446 and #103663

Dear Ms. Churilla:

Please find attached our response to the findings in the draft copy of your report entitled "Hill House Association Report on Contract Compliance Procedures for the Period June 1, 2008 Through October 31, 2009". We have also sent an electronic copy to Mr. Jeff Vargas.

If you have any further questions please contact either Victor Roque at 412.392.4403 or me directly at 412.392.4414 or via email at alogan@hillhouse.org.

Sincerely,

Victor A. Roque
President & CEO

Alice L. Logan
Vice President & CFO

Enclosures:

Hill House Association's Summary of Key Points

Hill House Association has been issued state and local government contracts for over 16 years, gone through multiple audits and they have always been clean. In prior contracts with Allegheny County we have always received executed contracts and have been assigned a County program liaison to verify that the program deliverables had been met. With no executed ACJ contract formally received from the County, no communication with Hill House by a County representative it was our understanding that Kyle Holbrook was the acknowledged point person for this project in conjunction with Allegheny County Jail due to the initial meetings in which Hill House was approached to act as the fiduciary agent for the Mural Project. It was also our understanding that Mr. Holbrook, due to his expertise, and ACJ Administration were solely responsible for the deliverables of the Mural Project.

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Hill House Association Response to Finding #1 Failure to Conduct Programmatic Monitoring

In the absence of an executed contract received by Hill House Association ("HHA"), it was our understanding since we were approached jointly by Allegheny County Jail ("ACJ") personnel and Kyle Holbrook to act as the fiduciary agent for the Mural Project allowing the County to support this project. It was assumed by Hill House that ACJ approved Kyle Holbrook to manage, oversee and implement the ex-offender art mural program since they approached HHA. Hill House's oversight of this program, as with other fiduciary programs included in our contracts with both the County and City is limited to acting as fiscal agent only. All programmatic deliverables are handled by the program director who reports to the programmatic liaison assigned by the funding department.

In 16 years of dealing with the "County" with respect to programmatic deliverables, for every internal and fiduciary agent component of our contract there is a Program Liaison who works in conjunction with the funder's fiscal department to verify all required documentation is filed prior to signing off on any invoice submitted by HHA's own Finance Department. Any missing documentation or information is corrected and the invoice is passed through the County's system for payment. Once payment is received it is believed by HHA that all programmatic deliverables have been met.

The fiduciary agreement, which was vetted with our lawyers previously, and executed between HHA and Mr. Holbrook was signed prior to any County

documentation being initiated and since an executed final document was not received it was not known that our agreement needed an amendment to bring it into compliance with the County's requirements.

HHA does not agree that it was their responsibility to identify the ex-offenders' that participated in the Mural Program but that it was the responsibility of Mr. Holbrook as the program director, who maintained direct contact with ACJ Personnel. We believe this understanding was reached between ACJ and Kyle Holbrook at the onset or *initial discussions of said program prior to requesting our participation as the fiscal agent.*

HHA establishes sub-accounts on all programs run through our agency. We are not required by any funders to have separate bank accounts for each and every program. To our knowledge, as in previous years, it was our understanding that the funds raised by Mr. Holbrook applied to that phase of the Mural Project and the overall budget as submitted to HHA and the various funders. You noted that Act 33/34 clearances apparently should have been run however upon subsequent reading of the ACJ contract provided by George Musoke upon request of Alice Logan during the audit, the contract does not mention required clearances by HHA. Note those clearances as per your contract are required to be performed by ACJ administration.

Now that we have secured and read the ACJ contract, HHA agrees with their recommendations under Finding #1, however we would insist in the future that the contract read Hill House Association/ name of programmatic entity to ensure contract compliance.

Hill House Association Response to Finding #2 Inadequate Fiscal Accountability

With respect to inadequate fiscal accountability HHA has determined and agrees with the County that there were eight instances of requisitions only and payments made to Mural art directors, a web master, and other office staff that did not have the required invoice attached. This was called to the attention of Mr. Holbrook when the requisition was submitted for payment who then assured HHA staff the invoice would be forthcoming however due to the increased activity during the summer period we failed to follow up and checks were released inappropriately. Consequently additional procedures have been put into place to insure this does not happen again.

HHA believes the \$1375 in legal fees (10/2008), the \$4,854 in purchased equipment (7/2009) along with the administrative fee charged of \$37,418 whether or not represented in an attached budget to the ACJ contract (2008-9 contract had an attached budget, 2009-10 has no budget attached) and has

received more than enough in foundation monies (2007-8 \$314,441, 2008-9 \$91,735 and 2009-10 \$75,000) that those charges the County determines as non allowable were covered by the foundation monies and not County funds. We contend, and due to our understanding of how the Mural Project operated that spending \$175,917, \$227,848 and \$144,670 respectively to artists and young people to keep them off the streets during the summer months, giving them something to do to beautify a neighborhood instead of tearing it down and not cause the problems we are all trying to deal with in respect to the youth of today was in compliance with the mission of the Mural Project.

With respect to the administrative fee (8-10% per program) charged by HHA, that fee is an allowable cost in every government contract we hold even with the County, specifically DHS, and has been for 17 years as attested by the CFO of Hill House. This fee is recognized as an accepted practice in our fiduciary contract with Allegheny County, specifically DHS.

HHA disagrees with regard to the \$31,444 being owed back to the County due to non-compliance with contracts not in our possession that should have been incumbent upon the last executing party to send via U.S. Mail, fax or courier to the official representative/contact of the organization specified in said contract or notated in the County's MPI database. HHA administered the contract in accordance with past practices; as it has dealt with the County over the years. Furthermore, there were sufficient funds from the foundations to cover costs cited as non-allowable by your auditors and significantly more monies were spent overall, \$481,176 over two years, to fund this initiative.

HHA's management acknowledged receipt of a complaint involving an allegation of fraud and immediately directed that individual to file a formal complaint with the police. It was questioned as to what local had jurisdiction and was determined the complaint needed to be filed in the individual's resident municipality. HHA took the position that until notified of an investigation by a law enforcement agency it was hear say and the allegation is not repeated until it is made official.

HHA was asked to provide support for the \$75,000 final invoice and a list of participants was supplied. Subsequently, your auditors asked for additional information with respect to the list of social security numbers. This information was emailed to Jeff Vargas promptly. We have requested Kyle Holbrook submit a detailed listing of individuals at specific sites, etc.

Hill House Association Response to Finding #3
Noncompliance with Other Contract Requirements

We agree with their finding pursuant to having received an executed contract. It was our opinion that Kyle Holbrook and ACJ personnel were adhering to the programmatic requirements since they were the initiators bringing the "contract" to HHA in the first place. We believe that they were aware through their discussions and the development and establishment of the contract of what each of their responsibilities were and would comply with them.

To Hill House's credit any court ordered support documents we had on file for other reasons were adhered to and monies were submitted in artist/participant names to Family Court. Documentation that HHA required of each individual was a W-9 and includes name, address and social security number only. Birth date is not a field on this document.

Submission of invoices with a summary of services provided again was not complied with however, not having a contract and knowing that Kyle Holbrook was in weekly meetings or having conversations with ACJ Administration we assumed they were being informed of the status of the Mural Project.

HHA for over 17 years has submitted monthly invoices to their fiscal counterpart at the County. The County's program liaison has approved or disapproved said invoice and with corrections being made signs off on the invoice and it is released for payment. HHA's assumption is that if an invoice is paid, all required programmatic documentation has been filed. HHA now understands that not all departments of the County operate in the same fashion nor do they have the same checks and balances.

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COUNTY OF ALLEGHENY

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February 25, 2010

Ms. Lori A. Churilla
Assistant Deputy Controller
Auditing Division
Office of the County Controller
104 Courthouse
436 Grant Street
Pittsburgh, Pa 15219


Dear Ms. Churilla,

The Administration for the Bureau of Corrections appreciates your efforts during the recent audit review concerning the Ex-Offender Mural Project. As you are aware, this agreement is between the Jail and the Hill House Association.

Periodic reviews conducted by the Controller's Office are invaluable to our operational stability. Such examinations edify our fiscal accountability and improve procedural protocols within our institution. Again, thank you for your assistance.

The accompanying pages will contain responses to your recommendations. If I may be of further assistance, please feel free to contact me.

Sincerely,


Ramon Rustin
Warden

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RESPONSES TO THE CONTRACT COMPLIANCE REVIEW FOR THE HILL HOUSE ASSOCIATION JUNE 1, 2008 THROUGH OCTOBER 31, 2009

Response to Recommendation of Finding #1

Recommendation

Jail Administration must make every attempt to improve its communication with contractors prior to the execution of contracts to ensure there is an accurate, mutual understanding of responsibilities of the contractor. The contracts should also be reviewed by Jail Administration to ensure that they are written in a manner that facilitates the completion of program objectives and proper administration of the program and are consistent with the understanding of the parties developed during the contracting process.

Response

The agreement with Hill House was unique to the Jail. The majority of agreements invoked by the County Jail entail receipt of a commodity or product to be utilized within the institution or provide a contracted service such as inmate meals or chaplaincy services that are delivered on site and seen on a routine basis.

The Hill House agreement stipulated a provision of service to be performed at various locations within the communities of Allegheny County. Not the typical agreement normally encountered.

Nonetheless, in future agreements of this type, Jail Administration will make every effort to ensure an open and direct line of communication will exist between the Vendor and the Jail. Furthermore, prior to implementation of an executed agreement, the Jail will meet with Vendor principals to insure contract stipulations are fully explained and mutually understood.

Response to Recommendation of Finding #2

Recommendation

Jail Administration should appoint a specific employee to monitor the administration of each future contract, including the monitoring of programmatic activities. Individuals who are assigned responsibility for monitoring the administration of contracts, should be given adequate time to perform their duties. Contract monitors should identify the objectives of each contract, key deliverables, and the significant compliance requirements to serve as the basis for the monitoring. There should be a communication framework established to help ensure that the Jail's administration takes appropriate action when contract monitors identify conditions that require remediation.

Response

The Bureau of Corrections has been in need of a contract monitor for nearly six years. Up to July 1, 2004, the Assistant Deputy Warden for Services was responsible for monitoring Jail contracts. That position was eliminated as of July 1, 2004 and will not be filled due to budgetary restraints. As stated above in the response to item one, the majority of agreements currently in effect by the Jail are seen and/or dealt with on a daily basis. However, even though many agreements are routinely "in play", it does not diminish the fact that a contract monitor would provide a more structured and thorough accounting of Jail contracts.

Jail Administration will make the attempt and request in the 2011 budget for some type of contract monitor position. Furthermore, an application for grant funding will be explored, to see if such funding may be applied for and accessed to fund such a position.