



County of Allegheny

Office of the Controller

FAMILYLINKS
REPORT ON CONTRACT
COMPLIANCE PROCEDURES
FOR THE PERIOD JULY 1, 2006
THROUGH DECEMBER 31, 2009

(Non-Audit Service)

April 14, 2011

**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 2, 2011

Mr. Marc Cherna
Director
Allegheny County Department of
Human Services
One Smithfield Street, 4th Floor
Pittsburgh, PA 15222

**SUBJECT: Compliance Procedures Applied to Contracts #63126, #76675, #89055,
and #104757 between FamilyLinks and Allegheny County DHS
for the Period July 1, 2006 through December 31, 2009**

Dear Mr. Cherna:

We have applied compliance procedures to contracts #63126, #76675, #89055, and #104757 between FamilyLinks and the Allegheny County Department of Human Services (“DHS”). We performed these compliance procedures to ensure that FamilyLinks was in compliance with the scope and terms of the agreements. Our compliance procedures covered the period from July 1, 2006 through December 31, 2009. Our engagement was performed as a non-audit service, and therefore was not conducted in accordance with *Government Auditing Standards*.

The application of our compliance procedures identified deficiencies in the allocation and reporting of FamilyLinks’ direct costs as well as in its indirect cost allocation methodology and implementation of its indirect cost allocation. We also identified conditions that suggest that FamilyLinks needs to improve its monitoring of its procurement process and its procedure for invoicing DHS. Based on the testing we performed, we have computed the amount due to DHS from FamilyLinks to be \$13,345. This amount is comprised of \$12,735, an amount billed for services that were not provided, and \$610, the amount of compensation costs billed that exceeded the maximum allowable amount.



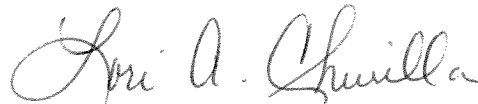
Mr. Marc Cherna
March 2, 2011

In the future, FamilyLinks needs to ensure that direct costs are properly charged and reported, that the implementation of its indirect cost allocation methodology results in an equitable allocation of costs to programs, and that monitoring is adequate to identify and correct deficiencies in its procurement and billing processes when they occur.

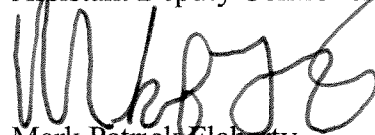
We believe that the implementation of our recommendations will improve FamilyLinks' compliance with any future DHS contracts. The results of the application of our compliance procedures are provided in the attached report. However, we strongly recommend that DHS ensure that FamilyLinks corrects the deficiencies in its indirect cost allocation plan. FamilyLinks should also obtain an opinion on the equitableness of its indirect cost allocation plan as required by the Commonwealth of Pennsylvania prior to engaging in future contracts with DHS.

We would like to thank the management and staff of FamilyLinks 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 James Burn, Jr., 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. Joseph Catanese, Director of Constituent Services
Ms. Jennifer Liptak, Budget Director, County Council
Mr. Fred Massey, FamilyLinks CEO
Mr. Randolph Brockington, DHS Deputy Director
Mr. William Pagonis, DHS Administrator
Mr. Guy A. Tumolo, Deputy Controller
Ms. Pamela Goldsmith, Communications Director

EXECUTIVE SUMMARY

Purpose of Procedures:

We performed compliance procedures to ensure that FamilyLinks was in compliance with the scope and terms of contracts #63126, #76675, #89055, and #104757 for the period July 1, 2006 through December 31, 2009.

Background:

FamilyLinks is a nonprofit organization that provides integrated family-centered services focused on behavioral, social, and developmental health issues.

Allegheny County entered into contracts #63126, #76675, #89055, and #104757 with FamilyLinks for the fiscal years ended June 30, 2007, 2008, 2009, and 2010, respectively. Under these contracts, FamilyLinks was to provide youth, family and transitional services, behavioral health services, and educational and community services. The above contracts were subject to various modifications. The final maximum amounts of contracts #63126, #76675, #89055, and #104757 were \$11,612,866, \$9,772,193, \$7,932,873, and \$7,116,279, respectively.

Results in Brief:

While performing our procedures, we found that FamilyLinks improperly charged and reported direct costs, did not comply with indirect cost allocation plan requirements, billed Allegheny County Department of Human Services ("DHS") for services not provided and for compensation costs that exceeded the maximum allowable amount. Specifically, we found that:

Finding #1

- The direct payroll costs allocable to a particular non-County program were improperly charged to a different program because there was no available funding from other funding sources to fund the payroll costs under the program to which the costs were allocable. (See also Finding #2 regarding the impact of this condition.)

Finding #2

- FamilyLinks did not obtain an opinion from a public accounting firm on the equitableness of its indirect cost allocation plan as required for mental health (MH) and mental retardation (MR) programs.
- We applied procedures to assess the equitableness of FamilyLinks' indirect cost allocation plan, and identified two conditions that suggest that the cost allocation methodology being utilized by FamilyLinks does not result in an equitable allocation of indirect costs:

EXECUTIVE SUMMARY

- The direct labor applied to a particular program was not properly charged (see finding #1), which adversely impacts the equitableness of the allocation of FamilyLinks indirect costs under the methodology currently being utilized.
- All of FamilyLinks' indirect costs are allocated to programs, regardless of whether any indirect benefit is provided to the programs.

Finding #3

- FamilyLinks billed DHS \$12,735, the amount it paid to a contractor for services that were not provided. A written contract was not utilized for the procurement.
- We observed that an adequate analysis of the contractor's ability to perform the work was not performed prior to engaging the contractor to perform the work. We also determined that for four (4) of eight judgmentally selected procurements in excess of \$5,000, FamilyLinks did not obtain competitive sealed bids as required by its purchasing policies.
- FamilyLinks billed DHS \$610 in excess of the maximum allowable compensation for one individual per DPW regulations and FamilyLinks' approved Personnel Action Plan.

Recommendations:

We recommend that FamilyLinks management:

Recommendation #1

- Take steps to ensure that direct costs are properly charged to facilitate the fair allocation of FamilyLinks' indirect costs.
- Request budget modifications prior to incurring significant expenditures that are not contemplated in the applicable program budgets.
- Take steps to ensure that the characterization of the expenditures reported in the AC-17 forms submitted to DHS is accurate.

Recommendation #2

- Modify the control environment to reinforce the importance of an understanding of and compliance with all applicable compliance requirements pertaining to allowable costs and cost allocation.
- Take steps to ensure that direct costs are charged to the appropriate programs to help ensure that indirect cost

EXECUTIVE SUMMARY

allocations are equitable and comply with the applicable compliance requirements.

- Revise its cost allocation plan to provide for an evaluation of the facts and circumstances associated with the indirect costs incurred to determine whether the costs actually provided an indirect benefit to programs before permitting the costs to be allocated to the programs.
- Once the deficiencies in its cost allocation plan are remedied, obtain an opinion from a public accounting firm on the equitableness of the cost allocation plan, and continue to do so on an annual basis as required.

Recommendation #3

- Immediately repay DHS \$12,735, the amount billed for services not provided, and \$610, the amount of the overbilling attributable to compensation costs in excess of the allowable amount.
- Take steps to improve the implementation of its procurement process.
 - Require individuals involved in the procurement process to periodically review the applicable regulations and FamilyLinks' internal purchasing policies.
 - Monitor the procurement process to ensure that competitive sealed bids are utilized for large procurements as required by FamilyLinks' purchasing policies.
 - Perform adequate analysis of a contractor's ability to perform prior to entering contracts.
 - Ensure that written contracts are used for all large procurements.
- Implement a closer review of Allegheny County billings to ensure that services billed for were services that were actually provided.
- Annually perform a detailed review of the salary and benefit costs actually incurred in relation to the maximum allowable costs, and reduce its Allegheny County billings to the extent that FamilyLinks' compensation costs exceed the DPW maximum salary combined with the state's fringe benefit rate for the year for equivalent positions.

We recommend that DHS management ensure that FamilyLinks reimburses the County \$13,345.

I. Introduction

Background

FamilyLinks is a nonprofit organization that provides integrated family-centered services focused on behavioral, social and developmental health issues.

Allegheny County Department of Human Services (“DHS”) entered into contracts #63126, #76675, #89055, and #104757 with FamilyLinks for the fiscal years ended June 30, 2007, 2008, 2009 and 2010, respectively. Under these contracts, FamilyLinks was to provide youth, family and transitional services, behavioral health services, and educational and community services. The above contracts were subject to various modifications. The final maximum amounts of contracts #63126, #76675, #89055, and #104757 were \$11,612,866, \$9,772,193, \$7,932,873, and \$7,116,279, respectively.

Youth, family, and transitional services are provided via the Emergency Shelter, McKeesport Teen Pregnancy and Shelter, Adolescent Skills and Independent Living, Downtown Outreach Center, Street Outreach, and Penn Free Housing programs.

The Emergency Shelter program provides temporary, emergency community group living environments. Shelters accept temporary emergency placements 24 hours per day, seven days per week, up to the 50 bed capacity and depending on gender mix per approval of the DHS Office of Children, Youth and Families. The goals are to improve youth safety, enhance permanency and increase youth and family well-being.

The McKeesport Teen Pregnancy and Shelter program is a group home services program that provides community-based group living environments that are staff-supervised and that provide assessment, therapeutic interventions, education, specialty care, (e.g. teen mother education and support) and discharge/aftercare planning for youth and families. The goal is to improve youth safety, enhance permanency and increase youth and family well-being. The program provides various group therapeutic and counseling services to pregnant and/or parenting teen mothers, competency development in preparation for adulthood and independent living.

The Adolescent Skills and Independent Living program is a group apartment living services program for teens in preparation for transition to adulthood and independence. Focus is on life skills, career choice and experience, education, permanent housing, and meaningful and retainable employment in a staff-supervised

I. Introduction

environment. The goal is to improve youth safety, enhance permanency and increase youth and family well-being.

The Penn Free Housing program is a scattered site rent subsidy program that provides up to 12 months of rental assistance and case management to 10 homeless adult families with substance abuse history. Candidates are referred by homeless shelters, domestic violence shelters, past clients, and other DHS human service providers.

Behavioral health services are provided via Outpatient, Partial Day Treatment, Family Treatment Center, HIV, Outpatient Mental Health, School Based, Wraparound, Family Based Mental Health and Mobile Crisis programs. Clients served include children, youth, individuals, family members, and community members who are affected by or at risk of being affected by directly or indirectly, alcohol, tobacco and/or other drug use. The program also serves adolescents and adult chemically dependent and addicted clients with co-occurring diagnosis.

Educational and Community services are provided via mental health, parent and child development center, and Therapeutic Learning Center programs.

II. Scope and Methodology

We applied compliance procedures to contracts #63126, #76675, #89055, and #104757 between FamilyLinks and Allegheny County Department of Human Services (“DHS”) to ensure that FamilyLinks was in compliance with the scope and terms of the contracts. Our compliance procedures covered the period from July 1, 2006 through December 31, 2009.

Specifically, we performed the following procedures:

- Interviewed FamilyLinks 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 FamilyLinks management 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 FamilyLinks Board meetings for the period July 1, 2006 through December 31, 2009.
- Examined records of FamilyLinks 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, FamilyLinks’ compliance with applicable laws and regulations and the provisions of contracts #63126, #76675, #89055 and #104757.

We provided a draft copy of this report to FamilyLinks’ CEO for comment (see page 17).

III. Findings and Recommendations

Finding #1

Improper Allocation and Reporting of Direct Costs

We noted that FamilyLinks' general ledger reflected that no salary costs had been incurred for at least one active program. Upon inquiry, we were informed that although an individual did work on the program, the program budget did not provide for salary costs. The salary costs associated with the program were charged to another program that had a budget which included salary costs. This condition also impacted FamilyLinks' indirect cost allocation (see finding #2).

We also noted that fixed assets purchased were reported as repairs to fixed assets on the 2008-2009 AC-17 for MR programs filed by FamilyLinks. The contract budget did not include an amount budgeted for fixed asset purchases and FamilyLinks did not request a budget revision to include fixed assets purchases prior to making the fixed asset purchases. In addition, because FamilyLinks did not specifically identify the fixed assets purchased, the Commonwealth of Pennsylvania and DHS were not made aware that property was purchased in which they may have title. Not being aware of the existence of the property precluded the Commonwealth of Pennsylvania and DHS from evaluating whether the property purchased was necessary and reasonable for proper administration of the programs, and from monitoring the usage of the property to ensure that it is being used by FamilyLinks for the purpose for which it was intended and for any required minimum usage period.

It appears that the aforementioned conditions may have occurred in part because FamilyLinks may not have been aware of the applicable requirements. However, it appears that the control environment was also likely a contributing factor.

Recommendations

We recommend that FamilyLinks:

- Take steps to ensure that direct costs are properly charged to facilitate the fair allocation of FamilyLinks' indirect costs.
- Request budget modifications prior to incurring significant expenditures that were not contemplated in the original program budgets.

III. Findings and Recommendations

- Take steps to ensure that the characterization of the expenditures reported in the AC-17 forms submitted to DHS is accurate.

III. Findings and Recommendations

Finding #2

Noncompliance with Indirect Cost Allocation Plan Requirements

There are a variety of regulations that govern the allocation of indirect costs to programs. The funding sources and the nature of the programs being conducted impact which specific regulations are applicable to any particular allocation of indirect costs. FamilyLinks is subject to a number of regulations governing the allocation of indirect costs, as it conducts a wide variety of programs and receives funding for its programs from several sources including Allegheny County and the Commonwealth of Pennsylvania. For example, PA Code section 4300.94 requires an agency which provides mental health (“MH”) and mental retardation (“MR”) services under contract with a County to obtain an opinion from a public accounting firm on the equitableness of its cost allocation plan. The same PA Code section also requires costs charged as indirect costs of state-supported programs to be “necessary and reasonable for the proper and efficient administration of the contract”. Although requirements imposed by specific regulations may differ, the regulations are largely designed to ensure that certain basic and generally accepted cost allocation principles are utilized when indirect costs are allocated to programs.

Indirect cost allocation plans must be designed to provide for an equitable allocation of costs to an organization’s various programs, which presumes that the costs allocated to programs must indirectly benefit those programs. The methods used to allocate indirect costs must also be applied uniformly and consistently over time.

FamilyLinks did not obtain an opinion from a public accounting firm on the equitableness of its cost allocation plan for the contract years to which we applied our procedures or any prior contract years as required. Consequently, we believed it necessary to gain an understanding of FamilyLinks’ indirect cost allocation plan and how it has been implemented to assess whether the plan is designed to provide for and did in fact provide for an equitable allocation of costs to programs, including County programs, and whether the cost allocation methodology has been uniformly and consistently applied. During this process, we determined that FamilyLinks appears to have applied its cost allocation methodology uniformly and consistently over time. However, we identified a number of conditions that suggest that the design and

III. Findings and Recommendations

implementation of the plan does not provide for an equitable allocation of indirect costs to programs.

We noted that the FTEs utilized to allocate indirect costs to programs on a monthly basis do not necessarily represent the FTEs actually applied to each program for the month. We noted at least one active program for which zero (0) FTEs were used to calculate the percentage of indirect costs allocable to the program. (No indirect costs were allocated to the program as a result.) Upon inquiry, we were informed that although an individual did work on the program, the program budget did not provide for salary costs. The salary costs associated with the program were charged to another program that had a budget which included salary costs (see finding #1). If the FTEs used for cost allocation purposes do not represent the effort applied to each program for the period, the indirect cost allocation cannot be equitable.

We also noted that the cost allocation plan used by FamilyLinks does not include a process to determine whether costs incurred actually provide an indirect benefit to programs before the allocation of costs to the programs is permitted. Certain costs incurred by FamilyLinks, such as the legal costs related to investigating the feasibility of purchasing a specific parcel of real property, did not provide an indirect benefit to its programs and are therefore not allocable to the programs. The indirect cost allocation plan being utilized by FamilyLinks results in the entire amount of every cost incurred that is not charged directly to a specific program or programs being allocated across all of its various programs, including County programs. (Some County programs operated by FamilyLinks are program-funded programs and some are fee-for-service programs. Under fee-for-service programs, FamilyLinks bills DHS for units of service at the established rates. Only indirect costs allocated to County program-funded programs within FamilyLinks' accounting system were actually billed to DHS.)

It appears that the aforementioned conditions may have occurred in part because FamilyLinks may not have been aware of the applicable regulations. However, it appears that the control environment was also likely a contributing factor.

Utilizing an indirect cost allocation plan that does not provide for an equitable allocation of costs to programs results in noncompliance with the applicable regulatory requirements. Not complying with the applicable regulatory requirements exposes

III. Findings and Recommendations

FamilyLinks to the risk that funding sources will not participate in FamilyLinks indirect costs.

Recommendations

We recommend that FamilyLinks:

- Modify its control environment to reinforce the importance of an understanding of and compliance with all applicable compliance requirements pertaining to cost allocation
- Take steps to ensure that direct costs are charged to the appropriate programs to help ensure that indirect cost allocations are equitable and comply with the applicable compliance requirements.
- Revise its cost allocation plan to provide for an evaluation of the facts and circumstances associated with the indirect costs incurred to determine whether the costs actually provided an indirect benefit to programs before permitting the costs to be allocated to the programs.
- Once the deficiencies in its cost allocation plan are remedied, obtain an opinion from a public accounting firm on the equitableness of the cost allocation plan, and continue to do so on an annual basis as required.

III. Findings and Recommendations

Finding #3

Other Improperly Charged Expenditures

Services Not Provided

We judgmentally selected a sample of transactions for expenditure testing from the period to which we applied our procedures. During our testing, we noted that FamilyLinks made two advance payments totaling \$12,735 to an asphalt paving contractor for excavation and paving at two FamilyLinks CYF shelter locations to provide additional parking space. The work was not completed by the contractor, and the contractor subsequently declared bankruptcy. FamilyLinks hired another contractor to complete the work at both locations. FamilyLinks billed DHS for the advance payments to the initial contractor that did not complete the work as well as the amount paid to the second contractor that completed the work. Because services were not provided, the advance payments made to the initial contractor of \$12,735 were not allowable costs. FamilyLinks' management has represented to us that FamilyLinks has been identified as a creditor in the initial contractor's bankruptcy proceedings.

It appears that this condition may have occurred because FamilyLinks did not conduct an adequate analysis of the initial contractor's ability to complete the project prior to engaging the contractor to complete the work. In addition, FamilyLinks obtained an estimate from the initial contractor, but did not enter into a written contract with the contractor. During our testing, we identified other circumstances that suggest that there are deficiencies in the implementation of FamilyLinks' procurement process. We judgmentally selected a sample of transactions for expenditure testing from the period to which we applied our procedures. Included in that sample were eight transactions involving procurements in excess of \$5,000. We noted that for four (4) of the eight procurements, FamilyLinks did not obtain competitive sealed bids as required by its purchasing policies.

The effect of this condition is that FamilyLinks' billed DHS for \$12,735 to which it was not entitled.

Compensation Charged in Excess of the Allowable Amount

Section 4 of the DHS *Personnel Action Plan (PAP) Manual* indicates that an agency's maximum salary for each job classification combined with the agency's fringe benefit rate for

III. Findings and Recommendations

that year cannot exceed the Pennsylvania Department of Public Welfare's ("DPW") maximum salary for equivalent positions combined with the state's fringe benefit rate for that year, and that any excess will be treated as a disallowed cost.

We examined the schedule prepared by FamilyLinks to assess whether the salary and benefit costs that were ultimately billed to the County and reported on forms AC-17 for the contract year ended June 30, 2009 were allowable based on the established requirement. We determined that the combination of salary and fringe benefits billed by FamilyLinks exceeded the combination of the state maximum salaries and applicable fringe benefit rate for one individual, and that the excess billings amounted to \$610.

It appears that this condition may have occurred because FamilyLinks' did not perform a detailed review of the salary and benefit costs actually incurred in relation to the maximum allowable costs. The effect of this condition is that FamilyLinks billed Allegheny County DHS \$610 in excess of the allowable compensation costs for one individual.

Recommendations

We recommend that FamilyLinks:

- Immediately repay to the DHS \$12,735, the amount billed for services not provided.
- Take steps to improve the implementation of its procurement process.
 - Require individuals involved in the procurement process to periodically review the applicable regulations and FamilyLinks' internal purchasing policies.
 - Monitor the procurement process to ensure that competitive sealed bids are utilized for large procurements as required by FamilyLinks' purchasing policies.
 - Perform adequate analysis of a contractor's ability to perform prior to entering contracts.
 - Ensure that written contracts are used for all large procurements.
- Implement a closer review of DHS billings to ensure that services billed for were actually provided.

III. Findings and Recommendations

- Immediately repay DHS \$610, the amount of the overbilling attributable to compensation costs in excess of the allowable amount.
- Annually perform a detailed review of the salary and benefit costs actually incurred in relation to the maximum allowable costs, and reduce its DHS billings to the extent that FamilyLinks' compensation costs exceed the DPW maximum salary combined with the state's fringe benefit rate for the year for equivalent positions.

We recommend that DHS management ensure that FamilyLinks reimburses the County \$13,345.

April 13, 2011

Ms. Lori A. Churilla
Assistant Deputy Controller, Auditing
County Controller
Courthouse
436 Grant Street, Room 104
Pittsburgh, PA 15219

Dear Ms. Churrilla:

Familylinks has and continues to provide clinical services to the most vulnerable of our society for several years. Over 20,000 families, children and individuals depend upon our services and outreach efforts, annually. Even during these challenging economic times, Familylinks continues to seek ways to provide excellent clinical services to children and families despite reimbursement rates that have not kept up with increasing costs of care including staff compensation and healthcare benefits. Our dedicated staff have continued to perform their jobs to strengthen the lives of children and families without cost of living adjustments while increasing their participation in the own employee benefits for the last three years. This has been substantiated through various compliance and reviews from the various agencies that fund the needed services to those who would be at risk without these services.

Familylinks thanks the Allegheny Controller's office for their commitment to ensure the fair and proper use of tax dollars that are necessary to ensure that no Allegheny resident will fall through the cracks with needed human services. The Controller's office compliance review and findings totaling approximately \$ 13,345 for the three and a half year period from July 1, 2006 through December 31, 2009 represents less than .03% of the total expenditures of \$45,000,000 that Familylinks had disbursed for that same period.

Our response is as follows:

SUBJECT: Compliance Procedures Applied to Contracts #63126, #76675, #89055, and #104757 between Familylinks, Inc. and Allegheny County DHS for the Period July 1, 2006 through December 31, 2009.

Finding #1 Improper Allocation and Reporting of Direct Costs

Familylinks Response:

Familylinks accepts the recommendations of the County Controller's Office. Familylinks will request the detail of the transactions noted by the Auditors and investigate to determine if they were indeed misreported on the AC-17. If necessary Familylinks will resubmit a corrected AC -17 to the DHS and make any financial adjustments necessary.

Familylinks will take steps that ensure that direct costs are allocated properly, recorded accurately on all AC-17 forms, and request budget modifications prior to incurring additional (unbudgeted) significant expenditures.

Finding #2 Non- compliance with Indirect Cost Allocation Plan requirements of Direct Costs

Familylinks Response:

Familylinks accepts the recommendations of the County Controller's Office. Familylinks will take steps to ensure that all compliance requirements are thoroughly understood and complied with, in particular it's methodology in charging direct costs and indirect cost allocations. Familylinks will review its indirect cost allocation plan to make sure that it conforms to all compliance standards including PA Code section 4300. Familylinks will discuss with its auditors about obtaining an opinion on the "equitableness of its cost allocation plan" according to PA Code section 4300.94

Finding #3 Other Improperly Charged Expenditures

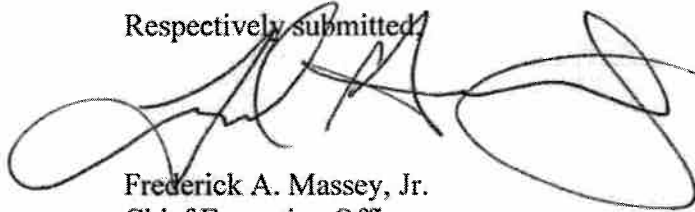
A. Services Not Provided

Familylinks accepts the findings of the County controller's office and will comply with whatever action the DHS requires of us with respect to reimbursement.

B. Excess Compensation

Familylinks accepts the recommendations of the County Controller's. Familylinks will immediately repay to the DHS \$610.00. Familylinks will continue to perform an annual review of its salary and benefit costs in relation to the DPW maximum allowable amounts.

Respectively submitted

A large, stylized handwritten signature in black ink, appearing to read 'F. Massey, Jr.', is written over the typed name below.

Frederick A. Massey, Jr.
Chief Executive Officer

ALLEGHENY COUNTY DEPARTMENT OF HUMAN SERVICES

Marc Cherna, Director

Dan Onorato, Allegheny County Executive

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March 30, 2011

Ms. Lori Churilla
Assistant Deputy, Auditing
Allegheny County Controllers Office
219 Courthouse
436 Grant Street
Pittsburgh, PA 15219

Re: Compliance Procedures Applied to Contracts #63126, #76675, #89055, and #104757 between FamilyLinks and Allegheny County DHS for the Period July 1, 2006 through December 31, 2009

Dear Ms. Churilla,

The Department of Human services (DHS) has reviewed the findings and recommendations contained in the FamilyLinks Report on Contract Compliance Procedures as performed by your office for the period July 1, 2006 through December 31, 2009, and offers the following response:

Finding #1 Improper Allocation and Reporting of Direct Costs

DHS Response: The DHS will require FamilyLinks to review its allocation of all salary costs to ensure programs are appropriately charged. Should the review result in a disproportionate charge, FamilyLinks will be required to reimburse the DHS.

Additionally, the DHS will require that FamilyLinks resubmit a corrected AC-17 for Year Ending 2008-2009 for MR programs. We will further require the necessary budget adjustment requests be submitted for consideration.

Finding #2 Noncompliance with Indirect Cost Allocation Plan Requirements

DHS Response: When identifiable and appropriate, FamilyLinks must charge costs directly to a specific program. All remaining costs may be included in a Cost Allocation Plan and proportionately charged as indirect costs to all programs, provided that the allocation plan is fair and equitable and applied consistently.

Additionally, the DHS will inform all Mental Health and Office of Intellectual Disabilities providers that they are required to obtain an opinion from a public accounting firm on the equitableness of the cost allocation method they are using.

Finding #3 Other Improperly Charged Expenditures

DHS Response: Although FamilyLinks did comply with Department of Public Welfare (DPW) Regulations by obtaining sealed bids for major renovations (greater than \$2,000), it did not thoroughly investigate the contractor before entering into an agreement, and made an advance payment of \$12,735. The contractor filed for bankruptcy, and the advance payment was lost.

March 30, 2011
Compliance Procedures Applied to FamilyLinks Contracts
for the Period of July 1, 2006 through December 31, 2009

FamilyLinks has taken legal action to recover the lost funds. Upon disposition of the proceedings, FamilyLinks will be required to remit all recovered funds to the DHS.

FamilyLinks should also review its procurement procedures to ensure they comply with DPW Regulations, and thoroughly investigate vendors before payment is made.

The DHS will also require that FamilyLinks remit \$610.00 for the amount overbilled attributed to employee compensation in excess of the DPW allowable rate.

The Department of Human Services will conduct a follow-up review to ensure all of these matters have been properly addressed.

Should you have any questions, please contact Mr. Randolph W. Brockington at (412) 350-5203.

Sincerely,



Marc Cherna
Director

Cc: Randolph W. Brockington, Deputy Director
William J. Pagonis, Administrator
Catherine Adekoya, Administrator