

Failure of Sacramento County to Oversee the Delivery of Services Contracted to Galt Community Concilio, Inc.

Issues

These issues include:

- Whether the County of Sacramento provided appropriate oversight for its contracts with the Galt Community Concilio, Inc.
- Whether the County held the Concilio accountable for performance under those contracts
- Whether the County of Sacramento provided adequate oversight for its approximately \$263 million in contracts with other providers of social, mental health, and alcohol and drug treatment services.

Reason for the Investigation

In September of 2003 the Grand Jury received a complaint regarding misuse of funds by the officials of the Galt Community Concilio, Inc. (the Concilio), a non-profit 501.c.3 corporation. The Concilio was primarily supported with federal, state and county funds provided via contracts with the County of Sacramento. Since the original complaint was made, the Concilio has greatly restructured and reduced its operations, terminated employment of its previous Executive Director and filed for bankruptcy protection. Given these events, the Grand Jury decided that it would not be fruitful to pursue an investigation of the alleged misuse of funds by the Concilio.

However, the Grand Jury concluded there were several issues related to the oversight provided by the County of Sacramento that warranted further investigation. These issues related to how the County administered its contracts with the Concilio and the appropriateness of the actions taken by the County to address: 1) the Concilio's nonperformance relative to those contracts, and 2) the Concilio's overall ability to provide the contracted services to the community. Additionally, the Sacramento County Grand Jury examined the contract proceedings of Sacramento County departments with other community organizations that provide a service.

Method of Investigation

Members of the Grand Jury interviewed:

- Director and staff members of the Department of Health and Human Services (DHHS) of the County of Sacramento

- Agency Administrator of the Countywide Services Agency of the County of Sacramento
- Staff members of the Department of Human Assistance (DHA) of the County of Sacramento.

The Grand Jury reviewed the following materials:

- Videotape of the discussion of the Concilio at the June 18, 2003 meeting of the Sacramento County Board of Supervisors
- Contracted audits of the Concilio for fiscal years 1999-2000, 2000-2001, 2001-2002 and 2002-2003
- Contracts between the Concilio and the County of Sacramento
- County budget materials and a listing of recent contracts between the County DHA and DHHS and contractors for the provision of social and health services
- Chronologies of communications and actions taken by staff of DHA and DHHS relative to the Concilio in the period from 1998 to the present
- Communications between County staff and the Concilio and among County agencies regarding the Concilio
- Transcript of the interview with the previous Concilio Executive Director
- Documents related to the bankruptcy filing by the Concilio
- Correspondence between the Concilio and the Internal Revenue Service
- Correspondence between the Concilio and the State Attorney General's Office.

Background and Facts

Background on this Investigation

The 2003-2004 Grand Jury was unable to complete within its term an investigation into the allegations of the misuse of funds by the Concilio. Based upon the information that was uncovered during its investigation, the 2003-2004 Grand Jury recommended that this matter be carried over and investigated by the 2004-2005 Grand Jury.

A review of the documents suggested to the 2004-2005 Grand Jury that there were numerous improprieties in the financial operation of the Concilio and problems with the oversight provided by those departments of the County of Sacramento that contracted with the Concilio. The 2004-2005 Grand Jury determined that further investigation was warranted and opened this matter for review.

The specific issues for investigation were:

- Propriety of the financial operation
- Oversight provided by the County
- The Concilio's overall ability to provide the contracted services.

During the initial stages of this investigation the Grand Jury reviewed information concerning two issues. The first issue was the propriety of the financial operation of the Concilio itself. The Grand Jury considered information related to the legality and propriety of the Concilio's financial operations, the actions of its Board and former Executive Director, and the performance of the Concilio in meeting its obligations under its contracts with the County of Sacramento.

The Grand Jury concluded that it would not be productive to continue further investigation and publish a report related to the internal functioning of the Concilio. This decision was reached for several reasons.

First, the Concilio is now operating with a reconstituted Board, under new management, and at a very reduced level of operations. Second, the Executive Director who served during the period of alleged financial misconduct was terminated from employment at the Concilio in June of 2003. It does not appear that the current staff of the Concilio was responsible for past practices. Third, the Concilio filed for bankruptcy in January 2004.¹ At the time this report was written, the operations of the Concilio have been substantially reduced and are under the review of the Bankruptcy Court. The Grand Jury believes that any determination of legal culpability for alleged misconduct by former Concilio officials, who are not officials within the normal purview of the Grand Jury, is a matter for consideration by the Sacramento District Attorney.

The second aspect of the investigation is the oversight provided by the County of Sacramento agencies. These issues involved how County agencies administered contracts with the Concilio and the appropriateness of the actions taken by the County to address: 1) the Concilio's nonperformance problems relative to those contracts, and 2) the Concilio's overall ability to provide the contracted services to the community. These issues are the principal subjects of this report.

The Concilio: Background

The Concilio is a non-profit 501.c.3 corporation primarily supported with federal, state and county funds provided via contracts with the County of Sacramento. The Concilio was formed in 1975 and provided an array of social and health services to the communities in southern Sacramento County. Historically the Concilio's social services included senior services, emergency rent, utilities and mortgage assistance, food and clothing assistance, transportation services and job skill training. Health services included primary care, diabetes testing, pregnancy testing and prevention, prenatal and parenting classes and drug abuse counseling.

The Concilio and Sacramento County: Contracts

Table 1 that follows shows the principal sources of operating revenue for the Concilio for the three fiscal years (FY) ending June 30, 2003. These estimates were generated from

¹ United States Bankruptcy Court, Sacramento Division, Case No.: 04-20758-A-11

information provided in the Auditors' Reports² for the Concilio for FY 2000-2001, FY 2001-2002 and FY 2002-2003.³ During these years, contracts between the Concilio and the County's Department of Human Assistance (DHA) and the County's Department of Health and Human Services (DHHS) totaled \$3,158,000⁴ and amounted to 88 percent of the Concilio's government funding. Total revenues for the Concilio during this time, including net income from fundraising revenues,⁵ were approximately \$4,000,000. Grants from DHA and DHHS provided almost 80 percent of the Concilio's total revenues, and the Concilio was highly reliant on the County for its overall operations.

Table 1
Summary of Grants Made to Concilio for
FY 2000-2001 through FY 2002-2003

FY	DHHS Award Amounts	DHA Award Amounts	Sacramento County Total	Other Grants ⁶
2000-2001	\$ 196,000	\$ 620,000	\$ 816,000	\$ 90,000
2001-2002	\$ 522,000	\$ 620,000	\$1,142,000	\$170,000
2002-2003	<u>\$ 785,000</u>	<u>\$ 415,000</u>	<u>\$1,200,000</u>	<u>\$182,000</u>
3 year totals	\$1,503,000	\$1,655,000	\$3,158,000	\$442,000

Expansion of County Funding for Concilio Programs and Switch to Fee-for-Service

For many years the Concilio provided a wide range of social services paid for by contracts with DHA or its predecessor agencies. These services included, among other things, transportation services, emergency aid to the needy and assisting in the development of job skills. The contracts administered by DHA averaged \$569,000 per year for the four-year period ending on June 30, 2003. These services were on a cost-reimbursement basis. Under this approach the Concilio was paid for expenses, principally staff salaries and benefits, it incurred in providing services under the contract.

In FY 1998-1999, the Concilio also began to provide drug and alcohol treatment services via a contract with DHHS. The initial award for FY 1998-1999 was \$25,000. By FY 2002-2003, it had increased to \$166,000. These services were also on a cost-reimbursement basis. Over the four years ending on June 30, 2002, the average funding awarded by DHHS for these contracts was approximately \$126,000 annually.

² Prepared by Straine and Co., Certified Public Accountants, for FY 1999-2000 and 200-2001, dated January 30, 2002 and by McCurry & White LLP for FY 2001-2002 and 2002-2003. Certified Public Accountants, dated March 24, 2004.

³ All references to fiscal year cover the period from July 1 through June 30 of the indicated years.

⁴ All funding numbers are rounded to the nearest thousand.

⁵ Net income was used because, although fundraising revenues were large, so were expenses. Net revenues for the three year period totaled approximately \$32,000 on gross revenues of \$1,335,000.

⁶ Actual revenue shown in the audits derived from state and federal Grants, principally SETA, FEMA, Title III Aging and State Pregnancy Prevention grants.

In mid-FY 2001-2002, the DHHS contracts with the Concilio were expanded to include mental health services to children and expanded alcohol and drug treatment services. The contract period was to run through the end of FY 2002-2003. The awards were \$284,000 for FY 2001-2002 and \$567,000 for FY 2002-2003.

These were new services that had not previously been provided by the Concilio. The method of qualifying for payment was also different. Previous DHA and DHHS contracts with the Concilio were on a cost-reimbursement basis. The new DHHS contracts were on a fee-for-service basis. The Concilio would not be paid until it demonstrated that the services covered by the contract had been delivered in accordance with the contract. Successful performance under these contracts would require that the Concilio train existing staff, hire and train new staff, establish a new client base and demonstrate that the services allowed by the contract had been provided to eligible clients.

As shown in Table 2, awards⁷ to the Concilio from DHA remained fairly steady while those from DHHS grew rapidly between FY 1999-2000 and FY 2002-2003.

Table 2
History of Concilio funding by DHA and DHHS
Award Amounts and Type of Award by Fiscal Year

FY	DHHS	DHA ⁸	Cost-Reim- bursement	Fee-for-Service
1999-2000	\$118,000	\$620,000	\$738,000	-0-
2000-2001	\$196,000	\$620,000	\$816,000	-0-
2001-2002	\$522,000	\$620,000	\$786,000	\$356,000
2002-2003	\$785,000	\$415,000	\$415,000	\$785,000

With the awards described above, the Concilio was expected to provide an increased range of services and to become the major agent for the County in supplying social, mental health, and alcohol and drug treatment services in the cities of Galt and Isleton and the unincorporated area of southern Sacramento County.

The DHHS staff recognized that the Concilio would face significant challenges in gearing up to provide these services. They indicated that Concilio staff was trained and qualified in FY 2001-2002 to provide these new services. The DHHS staff also provided substantial guidance and assistance to the Concilio during this period and well into FY 2002-2003.

⁷ The "award" is the amount authorized in the contracts; actual payments were in some cases much less.

⁸ Specifically, the DHA provided awards of \$397,000 in FY 1999-2000, FY 2000-2001, FY 2001-2002 and FY 2002-2003 for Temporary Assistance to Needy Families services. DHA also provided funding for CalWorks and other programs of \$273,000 for both FY 2000-2001 and 2001-2002, and \$126,000 for FY 2002-2003.

Financial Difficulties Encountered by the Concilio in FY 2001-2002 and 2002-2003

From July 2001 through June 2003 the Concilio faced a steadily worsening financial situation. According to the audit performed by McCurry & White, the Concilio experienced numerous financial and accounting problems related to:

- Cash accounting and cash flow
- Issuance of payroll checks
- Operation of its accounting system
- Reporting to regulatory agencies
- Control over accounting for property and equipment
- Control over purchases and cash disbursements.

Other documented problems included the failure to pay payroll taxes due to the Internal Revenue System, the writing of checks with insufficient cash in accounts to cover those checks, and the inability to make payments on a \$526,000 loan made to the Concilio by the Rural Community Assistance Corporation (RCAC).

This loan was used by the Concilio to purchase property in April 1999 to develop an improved, one-stop central service facility. In addition to the loan for the purchase of the property, the Concilio incurred an estimated \$136,000 in pre-development costs related to this property.⁹ The Concilio was unable to fulfill the original loan conditions on the original schedule and renegotiated a loan extension with RCAC in June 2002.

The financial condition of the Concilio further worsened during this period because of the Concilio's inability to generate a sufficient caseload under its contracts with DHHS for drug and alcohol treatment and mental health services. As stated previously, these contracts, which totaled \$851,000 over the two-year period, were on a fee-for-service basis. Payments under the contracts could only be made after the Concilio had delivered the authorized services to eligible clients. According to information provided by DHHS and DHA staffs, the Concilio had provided no eligible billings through November 2002, and the total billings were only \$6,000 by February 2003¹⁰. Despite the lack of clients, the Concilio had hired new staff whose salaries depended on income from the contract. Because of this situation the Concilio was faced with additional expenses but lacked a viable source of revenue to pay those expenses.

The Concilio received a 10% advance of \$56,700 for the mental health contract in July 2002, and it appears that these funds were used to pay Concilio salaries and other expenses that did not produce services that would qualify for payment. The Concilio was never able to develop the client base needed to generate the units of service envisioned in the contract. Ultimately, the Concilio was unable to repay the \$56,700 advance and could not generate sufficient additional revenue under the fee-for-service contracts to cover its other expenditures. The staff of both DHA and DHHS eventually concluded

⁹ Page 3 of the June 18, 2003 Report to the Board of Supervisors on the Concilio Financial Condition by DHA and DHHS staff

¹⁰ An average billing rate of \$47,000 per month would have been required to provide all of the services authorized by the mental health contract for FY 2002-2003.

that the Concilio had a total of \$246,000 in excess costs incurred that could not be paid under the fee-for-service contracts.¹¹

By the spring of 2003, the fiscal mismanagement problems of the Concilio were widely known, its financial situation had worsened, and its ability to function deteriorated rapidly. In May 2003, the entire Concilio staff was terminated from employment. Following that action, a re-constituted Board of Directors was formed. Funding from DHHS was not continued for FY 2003-2004, and contracts with DHA were reduced to \$289,000 for FY 2003-2004. The loss of these contracts represented a reduction of more than 70% in funding from the Concilio's principal source of revenues, the County of Sacramento.

DHHS and DHA Knowledge about Concilio's Problems; Proposal to Restructure Contracts with the Concilio and Design a Corrective Action Plan

Interviews and materials¹² provided by the staff of both DHHS and DHA indicate that both departments were aware from the conception of the fee-for-service contracts that the Concilio could have problems generating sufficient units of service to offset the cost of operating programs under the contracts. However, both DHHS and DHA staff indicated that they were not aware of the extent of the Concilio's financial difficulties or of its improper management practices prior to the latter part of FY 2002-2003.

However, DHHS and DHA did have warnings in mid-FY 2002 that the Concilio was not properly providing financial information and might not be meeting the conditions of its contracts. In January 2002, an interoffice DHA memo¹³ noted that Concilio "services covered under CALWORKS and TANF are very few and perhaps the contracted amounts should be reviewed." The memo went on to say "DHA is paying a large portion of (the Concilio's) staff salaries, but it appears the staff is not dedicated to DHA functions but the overall function of the Concilio." In February 2002, DHHS notified the Concilio that fiscal shortcomings¹⁴ needed to be addressed. Specifically DHHS noted that the Concilio did not submit a timely and correct annual cost report and was late in providing the financial audit for FY 2000-2001.

By October 2002, internal DHHS internal e-mails show that DHHS staff was clearly aware that the Concilio was facing serious revenue shortfalls under its contracts. Internal e-mails in February 2003 show that DHHS knew that the Concilio was falling further and further behind in delivering services that qualified for payment. In March 2003, DHHS

¹¹ Page 4 of the June 18, 2003 Report to the Board of Supervisors on the Concilio Financial Condition by DHA and DHHS staff

¹² DHHS and DHA provided the Grand Jury with detailed chronologies of their correspondence with and discussions concerning the Concilio. Copies of written material and many e-mails were also provided. These materials and the information provided in interviews with DHHS and DHA staffs were used by the Grand Jury to develop the information provided in this section.

¹³ January 30, 2002 memo from DHA staff to Jerry Plummer, Subject: Galt Community Concilio Contract # CW 58-02

¹⁴ February 7, 2002, letter from Toni J. Moore, Administrator, Alcohol and Drug Services Division, DHHS, to Sharon Gillies, Executive Director of the Concilio

notified the Concilio that the financial audit for FY 2001-2002 as called for in the DHHS and DHA contracts was overdue, and notified the Concilio that “no further processing of unpaid claim(s) will take place until two copies of the FY 2001-2002 audit report are received.”¹⁵ In April, DHHS wrote the Concilio to express concerns about the Concilio’s inability to repay its 10 percent contract advance as scheduled.¹⁶

Throughout the second half of FY 2001-2002 and most of FY 2002-2003, DHHS staff responded to this situation by working with the Concilio staff to deliver the services under the contracts. However, by June 2003, DHA and DHHS staffs recognized the severity of the Concilio’s financial situation. DHA staff reviewed the Concilio’s books¹⁷ and determined the Concilio’s inability to pay its debts and its lack of revenues and cash flow. It was clear to DHHA and DHA that the Concilio was seriously overextended and would never be able to develop a sufficient client base and meet its obligations under the fee-for-services contracts. In their June 18, 2003 report to the Board of Supervisors DHHS and DHA concluded, “Due to the requirements of the funding source the Concilio was unable to generate the units of service needed to offset the cost of operating the programs and is left with a shortfall of approximately \$246,000.”¹⁸ DHA and DHHS also reported that major restructuring of the Concilio’s programs would be necessary for it to continue as a viable entity.

The Corrective Action Plan

In response to the Concilio’s situation, DHA and DHHS staff worked with the remaining Concilio personnel to provide for additional cash flow and ongoing revenue and to reduce the liabilities faced by the Concilio. The major elements of this plan were:

- The County would switch the fee-for-service contracts to a cost-reimbursement basis and pay \$246,000 to reimburse the Concilio for expenses it incurred but which were not payable under a fee-for-service approach.
- The Concilio would sell the property for the one-stop facility to retire the loan debt and predevelopment costs estimated to be \$738,000.
- The Concilio would pursue other actions to cancel debt or produce additional revenue. These were estimated to produce an additional \$130,000 in savings.
- The County would continue to fund the Concilio for social services via a \$269,000 contract with DHA, and
- The Concilio would complete financial audits for FY 2001-2002 and FY 2002-2003; additional funding of \$20,000 would be provided by the County for this purpose.

¹⁵ March 25, 2003, letter from Toni J. Moore, Administrator, Alcohol and Drug Services Division, DHHS, to Sharon Gillies, Executive Director of the Concilio

¹⁶ April 2, 2003 letter from Ann Edwards-Buckley, program Manager, child and family Mental Health, DHHS to Sharon Gillies, Executive Director of the Concilio

¹⁷ June 3, 2003 untitled report that does not identify the author or recipients, Subject: Galt Concilio

¹⁸ Page 1 of the June 18, 2003 Report to the Board of Supervisors on the Concilio Financial condition by DHA and DHHS staff

On June 18, 2003, the contract amendment and the overall corrective action plan were approved in a 5-0 vote of the Board of Supervisors by Resolution 2003-0795.

Outcome of Corrective Actions

Unfortunately, the actions taken by the Board of Supervisors to provide \$246,000 in funding and to institute a corrective plan proved insufficient to resolve the Concilio's financial situation. The Concilio filed for reorganization under Chapter 11 of the Bankruptcy Code in January 2004. A reorganization plan was filed in May 2004 and a new Executive Director was hired. The Concilio now operates with eight staff members rather than the 28 it previously employed. County support of the Concilio has been greatly reduced and amounts to a single contract with DHA for \$289,000 for FY 2004-2005. The Concilio has greatly reduced its operation and maintains a much-scaled down level of services. At the time of this report, it was unknown how successful the Concilio would be in surviving bankruptcy and continuing its operations, albeit at a much scaled down level.

The County is Heavily Reliant on a Large Number of Community-Based Organizations for Health and Human Assistance Services

The Grand Jury requested and received a listing of the FY 2004-2005 contracts and service agreements between DHA and current service providers. Similar information was provided by DHHS for its contracts with community based organizations. The FY 2003-2004 budget for the County provides information on the number of contracts for services made by DHA and DHHS. Table 3 provides a summary of the current contracts and agreements for services made by DHHS and DHA.

Table 3
Summary of Current DHHS and DHA Contracts and Agreements

Category	Amount funded	Number of Agreements	Entities Funded
DHA Contracts	\$ 53,000,000	48	32
DHA Service Agreements ¹⁹	\$ 22,000,000	89	44
DHHS - CBO contracts ²⁰	\$109,000,000	130	64
DHHS – other contracts ²¹	<u>\$ 79,000,000</u>	<u>126</u>	N/A
Total	\$263,000,000	393	

The information shows that the County depends on a large number of contractors to deliver approximately one-quarter of a billion dollars in annual services to citizens and communities. The contractors include a wide range of non-governmental entities: large,

¹⁹ Information on service agreements is for FY 2004-2005 and was provided by DHA

²⁰ Contracts with community based organizations, as defined by DHHS

²¹ Approximate number and amounts, based on FY 2003-2004 DHHS budget information

medium and small non-profits, and individual contractors who deliver a broad range of human assistance and health related services. Some contractors are larger entities that derive only a relatively small fraction of their income from these contracts.²² Others are individual medical providers with relatively small contracts for direct medical services.

However, much of the funding goes to contractors similar to the Concilio in that they are relatively small to medium sized community-based, non-profit agencies whose operations depend heavily on contracts with the County. For example, DHA indicated that it currently has 48 contracts or service agreements for a total of \$7,300,000 with 27 small community-based service providers. DHHS has 130 contracts for \$109,000,000 with 64 organizations with similar characteristics. Many contractors have multiple contracts for various purposes with both DHA and DHHS.

County Oversight of the Concilio and Other Non-Profit Agencies that Provide Countywide Social and Health Services

According to the staff of DHA and of DHHS, evaluation of performance by non-profit service providers is often assessed functionally by various staff experts. For example, the DHA contract with the Concilio provided funding for a wide range of social services, job training, senior services and emergency services. The description of services to be provided under the contract is very general. Only the general nature of the services,²³ an expected number of clients to be served over the contract period and minimum hours of operation are described. Rather than detailing the services to be provided, the Concilio's contracts are structured to provide funding for a specified level of staffing.²⁴ Various County staff with expertise in each area are then assigned responsibility for determining that adequate service is being provided in each area.

In the case of the DHHS mental health contract with the Concilio a "Service Performance Monitor" was specified, and the contract requirements are both detailed and extensive. However, even though one individual is named for the purpose of the contract, that individual is not responsible for assessing the overall performance and viability of the contractor.

The staff of both DHA and DHHS indicated there are no Countywide policies that govern how County staff monitors overall performance of non-profit agencies. There is also no single department or individual designated with the overall responsibility to ensure that contracted agencies operate in a financially responsible manner and meet the overall requirements of their contracts with the County.

²² Examples include the University of California, Davis, Medical Center; local school districts and Sutter Health Central

²³ Examples of the descriptions include: Provide emergency services (food, clothing, shelter and transportation); provide gas vouchers or bus passes; provide nutrition/cooking classes and housing workshops, etc.

²⁴ For example, the DHA contract with the Concilio for Community Based Support Services specifies the percent of time and salaries that will be paid to 12 Concilio staff.

Summary and Conclusions

As these facts illustrate, the Concilio was suffering severe financial problems at least as early as April 2002. Cash flow was problematic; bills were not being paid; payroll taxes went unpaid; checks were approved but never issued. This situation persisted until May of 2003, when basic payroll could not be met and the entire staff was laid off. However, despite written documentation of performance problems at the Concilio in early 2002, neither DHA nor DHHS, who collectively provided more than three-quarters of the Concilio's revenues, were able to recognize the magnitude of the problem. In fact, DHHS worked to greatly expand the Concilio's mental health, drug and alcohol services, an effort that added to the Concilio's financial problems because it resulted in an even greater gap between revenues and expenditures.

The lack of effective oversight by DHHS and DHA of the Concilio was aggravated by the lack of enforcement of contract provisions, especially those related to annual audits and financial reports. Furthermore, the financial bailout of the Concilio proposed by DHHS and DHA and approved by the Board of Supervisors on June 18, 2003, was an action that further undermined the principle that contractors should be required to provide the services required in contracts in order to be paid. The intent to save a long standing community organization, expressed by the Board during its June 18, 2003 meeting, was understandable. However, the Board's approval of an after-the-fact redefinition of what the County would pay for under its contracts was inappropriate and poor policy. This investigation reveals that the County is substantially deficient in tracking the performance and viability of its contracted service providers. In summary, the current oversight system:

- Lacks an accountable system that ensures proper financial operation and performance of non-profit agencies that contract with the County to provide services
- Has no formal policies to trigger a review of an organization receiving monies for providing services to the public
- Does not identify either an individual or department responsible for overseeing the operation of non-profits to ensure performance and responsible management
- Fails to ensure timely audits are prepared as required by contracts.

Partially because of these deficiencies, the County did not identify and address the serious problems at the Concilio in a timely manner. As a result, contracted services were not provided, County funds were likely misspent, and the County's efforts to institute a corrective action plan were ultimately unsuccessful.

Even more alarming is the fact that the DHHS and DHA together administer almost 400 annual contracts or service agreements with service providers throughout the area. These agreements deliver approximately one-quarter of a billion dollars in annual services. As was the case with the Concilio, there are often several different DHA and DHHS contracts with the same service provider. Many of these non-profits are small or medium-sized entities that receive a large portion of their funding through contracts with

the County. The County is highly dependent on these contractors to provide social and health services, but fails to seriously oversee the operation of these entities.

It is not known if other non-profit service providers will experience the types of financial problems that led to the bankruptcy of the Concilio. However, if such problems occur or develop, the Grand Jury believes that County does not have a system in place to detect and address them in a timely manner.

Findings and Recommendations

Finding 1. Neither DHHS nor DHA had an effective system for oversight of their many contracts with the Concilio and did not have a system to determine if the Concilio was properly managed and capable of meeting the requirements of the contracts. The County generally lacks an oversight system for the approximately 400 contracts, which total \$263 million annually, that it has with non-profit providers of social, mental health, and alcohol and drug treatment services. If the financial problems occur at other nonprofit service providers, it is likely that they would not be detected and addressed before services suffered.

Recommendation 1. The County should establish clearly defined procedures to ensure that the financial operations and program performance obligations are met by all non-profit and community-based service providers that have substantial service contracts with the County. As part of this procedure, clear responsibilities need to be established for contract management and coordination of multiple contracts. In the case where a single non-profit service provider is providing multiple services under multiple contracts, a single lead county official should be identified as responsible for overall evaluation of performance and assurance that performance problems are addressed. Performance goals and objectives should be developed, measured, documented and reported.

Finding 2. When DHHS became aware that the Concilio was not providing the level of services called for in the contracts, it was slow to remedy the situation. When it became clear that the Concilio was in a financially untenable situation and could not provide the services called for in its contracts, DHHS proposed, and the County Board of Supervisors approved, a questionable bailout. The County modified the method of payment and essentially forgave the Concilio of the obligation to provide the services called for in the DHHS contracts. This allowed the Concilio to receive a \$246,000 payment for expenses it incurred in its unsuccessful attempt to provide services called for in its contracts.

Recommendation 2. The County should assure that contract provisions, such as audit requirements, that are essential to ensuring legal and proper use of contract monies are implemented and enforced. In addition, the County should implement requirements for the County's grant/contract monitors to ensure the grantee/contractor has engaged an auditor at least 30 days prior to the end of the fiscal year.

Finding 3. DHA and DHHS did not ensure annual audits were completed in a timely manner. These agencies did not inquire about the status of the FY 2001-2002 audit until

February 2003, seven months after the end of the fiscal year. The FY 2001-2002 audit (along with the FY 2002-2003 audit) was not completed until March 2004. The delay further compromised the ability of these departments to detect the severe financial problems at the Concilio.

Recommendation 3. Once a criteria for payment under a contract is established (such as a fee for documented service to individual clients), the County should not modify its approach and utilize a different method of payment (such as reimbursement for expenses incurred) for any payments made for past performance.

Response Requirements

Penal Code sections 933 and 933.05 require that specific responses to both the findings and recommendations contained in this report be submitted to the Presiding Judge of the Sacramento Superior Court by September 30, 2005 from:

- **Sacramento County Board of Supervisors, Findings 1 – 3, Recommendations 1 – 3.**
- **Agency Administrator, Countywide Services Agency, Findings 1 – 3, Recommendations 1 - 3.**

(It should be noted that the Grand Jury Advisor Judge Raymond Cadei recused himself from the review of this report.)