



**Department of Legislative Services
Office of Legislative Audits**

**Department of Human Services
Baltimore City Department of Social Services**

**Allegation Related to Possible Violations of State
Procurement Regulations and Certain Payments
Made to a Nonprofit Organization**

Special Review

Report dated July 11, 2018

Presentation to the Joint Audit Committee

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Background

- The Department of Human Services (DHS) – Baltimore City Department of Social Services (BCDSS) is one of the State’s 24 local departments of social services. BCDSS administers activities, such as the Supplemental Nutrition Assistance Program (formerly the food stamp program) and Temporary Cash Assistance, as well as services for adoption, foster care, and child protection.
- According to the State’s records, BCDSS operating expenses totaled \$175.4 million for fiscal year 2017, of which \$134.2 million was for employee salaries and benefits and \$41.2 million was for its remaining operating expenditures. These expenditures exclude funds disbursed to BCDSS clients under public assistance programs.



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Overview

We conducted a review of an allegation received through our fraud, waste, and abuse hotline regarding possible violations of State laws, regulations, and policies by a former BCDSS management employee and a nonprofit organization.

BCDSS has had a longstanding relationship with the nonprofit organization, and had 5 active agreements with the organization during the period July 2014 – June 2019 with a combined value of \$12.6 million.

BCDSS Agreements with Nonprofit

	Term	Total Value	Payments as of 12/1/17
1	7/1/14 - 6/30/19	\$8,000,000	\$5,207,936
2	7/1/14 - 6/30/17	\$1,571,367	\$1,306,996
3	6/15/16 - 5/14/17	\$500,000	\$500,000
4	5/1/17 - 4/30/18	\$1,500,000	\$0
5	5/1/17 - 4/30/18	\$1,000,000	\$0
Total		\$12,571,367	\$7,014,932

Source: BCDSS Records



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Overview (continued)

- The scope of our review included the 3 agreements with the nonprofit organization for which payments totaling approximately \$7 million had been made as of December 2017. We also looked at certain payments made by the nonprofit organization to an out-of-state vendor under one of these agreements (and one earlier agreement) which totaled \$1.3 million.
 - We identified certain questionable matters, violations of State procurement regulations, and a lack of sufficient procedures and accountability over the execution, use, and monitoring of the agreements as detailed in the following slides.
 - Certain of these matters were referred to the Office of the Attorney General – Criminal Division, which subsequently referred the matter to the Office of the State Prosecutor. We also identified possible violations of State ethics law that may require referral to the State Ethics Commission.
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Key Issues

- A former BCDSS management employee directed a nonprofit organization to invoice BCDSS \$500,000 for a cancelled project on which no work had been performed, and authorized the related payment which was retained by the nonprofit until we notified DHS of the issue.
- The former BCDSS management employee also circumvented State regulations by directing a nonprofit organization to contract with and pay an out-of-state vendor for work unrelated to its agreements with the nonprofit organization. Some of the related payments appeared questionable.
- BCDSS lacked sufficient procedures over the execution, use, and monitoring of two agreements with the nonprofit organization that we reviewed.



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Questionable Disbursement (Finding 1)

Questionable Payment to Nonprofit

A former BCDSS management employee directed a nonprofit organization to invoice BCDSS for \$500,000 for a cancelled project on which no work had been performed. The management employee subsequently authorized BCDSS to pay the invoice in September 2016.

The nonprofit organization still had possession of the funds when we began our review. After discussing the matter with DHS management, the funds were recovered in December 2017.



Questionable Use of Agreements (Finding 2)

Circumvention of State Procurement

- The former BCDSS management employee directed the nonprofit organization to contract with and pay an out-of-state vendor under two agreements. The out-of-state vendor (an individual) had a previous relationship with the BCDSS employee.
 - The out-of-state vendor worked directly for the former management employee and the majority of work performed related to generating reports and providing technical support directly to BCDSS. This work was unrelated to the purpose of the BCDSS agreements with the nonprofit which was to provide services to parents to help reduce the time that children were in foster care.
 - The nonprofit organization included charges related to the out-of-state vendor on its invoices to BCDSS without any knowledge or oversight of the work done.
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Questionable Use of Agreements (Finding 2)

Unsupported Contract Rates and Terms, and Lack of Deliverables

- There was no support for the contract amounts paid to the out-of-state vendor and for the contract increase that occurred at the direction of the former BCDSS management employee. The annual contract amounts were \$125,000 for fiscal years 2010 to 2013 and \$175,000 for fiscal years 2014 through 2017.
 - The contacts lacked any specific tasks or anticipated level of effort.
 - BCDSS management could not confirm or document the specific services or work products that were provided by the out-of-state vendor to support the charges. While we located certain reports which indicated that some work was performed, BCDSS had no assurance that the amounts paid were commensurate with the services performed.
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Questionable Use of Agreements (Finding 2)

Questionable Purchases

- The out-of-state vendor submitted six invoices to the nonprofit organization (ultimately paid by BCDSS) that included questionable purchases of electronic equipment, such as computer tablets, totaling approximately \$22,100.
 - The purchases of 14 computer tablets appeared to have been for the personal use of the former BCDSS management employee or were given by this employee to others as gifts. All purchases were shipped to or picked up by the former BCDSS management employee. Three tablets were engraved with the former management employee's name, one was engraved with the initials of the former management employee's close relative, and ten were engraved with the names of other BCDSS employees.
 - None of these purchases were recorded on BCDSS equipment records.
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Questionable Use of Agreements (Finding 2)

Possible Ethics Violation

Legal counsel to the State Ethics Commission advised us that the former BCDSS management employee's influence over the nonprofit organization to contract with and pay the out-of-state vendor, as well as the subsequent receipt of the aforementioned equipment, could potentially violate several conflict of interest provisions of State law.

Termination of Contract

The extent to which current BCDSS management was aware of the aforementioned conditions was unclear. Nevertheless, on October 25, 2017, BCDSS management directed the nonprofit organization to terminate its contract with the out-of-state vendor because the services could be obtained using existing BCDSSS personnel.



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Agreement Oversight (Finding 3)

Lack of Agreements Oversight

BCDSS lacked sufficient procedures and accountability over two agreements with the non-profit organization valued at \$9.6 million. For example:

- BCDSS did not independently verify that funds paid under these agreements were consistent with the approved budgets. Our test of 22 disbursements totaling \$5.5 million disclosed that BCDSS did not obtain sufficient documentation for any of the payments, including subcontractor billings, support of labor charges, and receipts for supply purchases.
 - BCDSS did not ensure that the nonprofit provided the agreed-upon services. For example, under one agreement, the nonprofit was to provide emergency support services to 75 families whose children were at risk for entering foster care. BCDSS did not obtain any of the required activity reports to substantiate the services provided.
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Conclusion

BCDSS should

- discontinue using existing agreements to procure unrelated services;
 - ensure goods and services are procured in accordance with State regulations;
 - document the specific tasks assigned under the contract and only pay invoices after agreed-upon services were received;
 - after consultation with the Office of the State Prosecutor, refer this matter to the State Ethics Commission;
 - locate the electronic equipment and review all payments to the out-of-state vendor for propriety, after consulting with the aforementioned authorities;
 - obtain documentation to verify past and future payments to the nonprofit; and
 - ensure contractual services are provided.
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