

**COUNTY OF SACRAMENTO  
CALIFORNIA**

For the Agenda of:  
June 6, 2017  
“*Communications Received and Filed*”

To: Board of Supervisors  
From: Department of Finance  
Subject: Document Fulfillment Services - CalWIN Client Correspondence Printing And Mailing Contract Review For The Period Of March 1, 2010 To October 31, 2016  
Supervisory District(s): All  
Contact: Joyce Renison, Assistant Auditor-Controller, 874-7248

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**RECOMMENDATION**

Receive and file the attached agreed upon procedures report, *Document Fulfillment Services - CalWIN Client Correspondence Printing and Mailing Contract Review for the Period of March 1, 2010 to October 31, 2016*

Respectively submitted,

**Ben Lamera**  
Director of Finance

Attachment

ATT 1 - Document Fulfillment Services - CalWIN Client Correspondence Printing and Mailing Contract Review for the Period of March 1, 2010 to October 31, 2016



**Internal Services**  
**Department of Finance**  
**Auditor-Controller Division**

Joyce Renison,  
Assistant Auditor-Controller

**County of Sacramento**

Agenda Date: June 6, 2017

ATT 1

Navdeep S. Gill,  
County Executive

David Villanueva,  
Chief Deputy County Executive

Ben Lamera,  
Director of Finance

April 24, 2017

Ann Edwards, Director  
Department of Human Assistance  
1825 Bell Street, Suite 200  
Sacramento, CA 95825

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

Dear Ms. Edwards:

We have performed the procedures enumerated below, which were requested and were agreed to by you to follow up on the exceptions noted in the prior report on applying agreed-upon procedures (AUP), dated October 4, 2016 for Department of Human Assistance's (DHA) contract agreement (Contract) with Document Fulfillment Services (DFS) as listed below:

- CalWIN Client Correspondence Printing and Mailing, contract number WA00025381 for the period from March 1, 2010 to October 31, 2016

This agreed-upon procedures engagement was conducted solely to assist DHA in evaluating DFS's compliance as outlined in the Contract.

DHA's management is responsible for establishing and maintaining effective internal controls for monitoring DFS's activities. In addition, DHA's management is responsible for ensuring DFS's compliance with the Contract's requirements with the County of Sacramento and all other applicable laws, regulations, and statutory requirements.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of DHA's management. Consequently, we make no representation regarding the sufficiency of the procedures described on the next page either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to the contract referred above and is not intended to pertain to any other contractual agreements of DHA.

Procedure numbers 1 through 5 were requested and agreed to by you on January 20, 2017, and an additional procedure, procedure number 6, was requested and agreed to by you on March 7, 2017. The procedures we performed for the Contract and our findings were as follows:

- 1) Internal Controls – We reviewed DFS’s written policies and procedures for cost allocations and preparing its Sacramento County invoice claims.

Finding: DFS did not provide written policies and procedures for cost allocations. As such, we were unable to review DFS’s written cost allocation policies and procedures.

DFS provided written policies and procedures for preparing its Sacramento County invoice claims. However, we noted exceptions concerning DFS’s written policies and procedures for preparing its Sacramento County invoice claims. See Attachment I, *Current Findings and Recommendations*.

- 2) Source Documents for Number of Printing – We randomly selected 25% of DFS’s printing invoices from January 25, 2016 to October 31, 2016 based on our audit random number program. We traced the quantity of laser printing claimed on the selected invoices to original source documents generated from California Work Opportunity and Responsibility to Kids Information Network (CalWIN) Consortium. An acceptable variance for quantity of laser printing (number of pages) claimed on each selected invoices and original sources is 2% per invoice, plus or minus (+/-).

Finding: We did not note any exceptions as a result of our procedures.

- 3) Telecommunications Device for the Deaf (TDD) endorsement – We reviewed a list of DFS’s TDD endorsement charges prepared by DHA from March 1, 2010 to October 31, 2016. Then, we randomly selected 10% of total charges from the list based on our audit random number program. We traced the selected charges to Sacramento County payment records.

We also randomly selected 10% of DFS’s printing invoices from March 1, 2010 to June 30, 2016 based on our audit random number program. We traced the selected invoices to the list of DFS’s TDD endorsement insert charges prepared by DHA.

In addition, the prior AUP period ended on June 30, 2016, therefore, we reviewed all DFS’s invoices from July 1, 2016 to October 31, 2016 to identify any TDD endorsement charges on the invoices.

Finding: DHA’s list states that DFS charged a total of \$124,680.38 TDD endorsements from March 1, 2010 to October 31, 2016. We noted exceptions as a result of our procedures. See Schedule II, *Schedule of Disallowed Costs* and Attachment I, *Current Findings and Recommendations*.

- 4) Mailing Invoices – We randomly selected 5% of DFS’s mailing invoices from March 1, 2010 to October 31, 2016 based on our audit random number program. We reviewed postage rates charged on the selected invoices. We also traced the selected invoices to DFS’s Client Postage Summary reports. We extrapolated the result from this procedure to compute projected questioned/disallowed costs for the entire period from March 1, 2010 to October 31, 2016.

Finding: We noted exceptions and computed projected questioned/disallowed costs as a result of our procedures. See Schedule I, *Schedule of Questioned Costs*, Schedule II, *Schedule of Disallowed Costs*, and Attachment I, *Current Findings and Recommendations*.

- 5) Printing Invoices – We randomly selected 5% of DFS’s printing invoices from March 1, 2010 to October 31, 2016 based on our audit random number program. We traced the selected invoices to DFS’s Client Consumption Summary reports. We were engaged to extrapolate the result from this procedure to compute projected questioned/disallowed costs for the entire period from March 1, 2010 to October 31, 2016.

Finding: We noted an exception as a result of our procedures. However, we did not extrapolate the questioned cost due to the exception was not a normal, recurring service provided by DFS to DHA. See Schedule I, *Schedule of Questioned Costs*, and Attachment I, *Current Findings and Recommendations*.

- 6) Printing Invoices – We reviewed a list of DFS’s Notice of Language Services print charges prepared by DHA from March 1, 2010 to October 31, 2016. We traced the Notice of Language Services print charges to Sacramento County payment records for the selected invoices from procedure number 5 above. We also traced the number of notice of language services print images to the amount of outgoing mail on DFS’s Client Consumption Summary report for the selected invoices.

Finding: DHA’s list states that DFS charged a total of \$595,015.90 for 1-sided print images of Notice of Language Services from March 1, 2010 to October 31, 2016. We did not note any exceptions as a result of our procedures. See Schedule III, *Schedule of Charges Not Claimed by DFS*, and Attachment I, *Current Findings and Recommendations*.

We were not engaged to, and did not perform an audit or examination, the objectives of which would be the expression of opinions on DFS’s schedules or results of our procedures referred to above and on the previous page. Accordingly, we do not express such opinions. Had we performed additional procedures, additional non-compliance, questioned costs, disallowed costs, or other matters might have come to our attention that would have been reported to you. This report relates only to the results of our procedures referred above and on the previous page, and does not extend to DFS’s contract requirements as a whole.

The projected questioned and disallowed costs presented in Attachment I, *Current Findings and Recommendations*, Schedule I, *Schedules of Questioned Costs*, and Schedule II, *Schedule of Disallowed Costs* are extrapolated based on our testing with the assumption that the same average error rate applied to each invoice in the population for the entire period of this review. Had we tested additional invoices, the projected questioned and disallowed costs would likely be changed.

DHA Management's responses to the findings identified during our engagement are described in Attachment I, *Current Findings and Recommendations*. We did not perform procedures to validate DHA Management's responses to the findings and, accordingly, we do not express an opinion on the responses to the findings.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Executive, and DHA's management. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Sincerely,

BEN LAMERA  
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.  
Audit Manager

Attachment I: *Current Findings and Recommendations*  
Attachment II: *Current Status of Prior Findings and Recommendations*  
Schedule I: *Schedule of Questioned Costs*  
Schedule II: *Schedule of Disallowed Costs*  
Schedule III, *Schedule of Charges Not Claimed by DFS*

County Of Sacramento  
Department Of Human Assistance (DHA)  
Document Fulfillment Services (DFS)  
Contract Review  
For the Period From March 1, 2010 To October 31, 2016

Current Findings and Recommendations

**1. Internal Controls**

Comment

We noted the Document Fulfillment Services's (DFS) invoice claim submission written procedures did not indicate the preparer and reviewer of the invoice claim to sign and date. By not having the preparer and reviewer sign and date the invoice claim, it would be difficult to track the individual that prepared the claim in a timely manner should any questions arise and mistakes could go undetected without management's knowledge.

As such, we noted differences between the amounts claimed, backup supporting documentation, and CalWIN Client Correspondence Printing and Mailing, contract number WA00025381 (Contract) requirements as described in Findings #2, 3, and 4.

Recommendation

We recommend DFS update and implement the invoice claim procedures to require the preparer to print his/her name, sign, and date the invoice claim when completed, and the reviewer to print his/her name, sign, and date the invoice claim when reviewed and ready to submit.

DHA Management's Response

The Department of Human Assistance (DHA) agrees with the findings and recommendations. DHA will improve contractual language, monitoring, and compliance to ensure print contractor internal controls are sufficient for DHA contracting standards in the new printing and mailing services contract. These improvements will also require the contractor's invoice preparer and contractor's reviewer to sign and date the invoice.

While DFS did not provide written policies and procedures for cost allocations, upon review, DHA maintains this is not a cost allocation contract. DHA maintains this was unnecessary for this review.

**2. TDD Endorsements**

Comment

Telecommunications Device for the Deaf (TDD/TTY) endorsement is a number for the deaf community to call so they are able to inquire about their correspondence(s).

Per the Contract, Section 3. Requirements, 3.6 states "*Mailing envelopes should include pre-printed return address, necessary postal indicia, County specified TDD/TTY phone number, and glass(l)ine address windows*" and on page 19, "*\*\*The price per image shall include cost*

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For The Period From March 1, 2010 To October 31, 2016

Current Findings and Recommendations

*of materials (paper, envelopes, etc.) and cost of processing (pickup/courier service, receiving and batching data, printing, folding, inserting, presorting, delivery to the USPS, etc.) Moreover, the price per image shall equal one-side of printed page and shall include all applicable sales tax.”*

Based on the above Contract requirement, TDD endorsements should be included in the price per image rate and not charged separately at a \$0.0100 rate.

Per the list provided by DHA, total TDD endorsement charged separately for services rendered from March 1, 2010 to October 31, 2016 was \$124,680.38. As such, we considered \$124,680.38 as disallowed costs. See Schedule II, *Schedule of Disallowed Costs*.

We noted TDD endorsements were charged for invoice numbers 22869, 22884, and 22994 in the amounts of \$323.52, \$310.11, and \$820.94, respectively, for invoices from July 1, 2016 to July 29, 2016. These TDD endorsement charges totaled \$1,454.57 (\$323.52 + \$310.11 + \$820.94) are included in the \$124,680.38 noted above.

We did not note any TDD endorsements charged separately for services rendered from July 30, 2016 to October 31, 2016.

Recommendation

We recommend DHA contact DFS to develop a resolution to resolve the TDD endorsement charges for services rendered from March 1, 2010 to October 31, 2016 in the amount of \$124,680.38.

DHA Management's Response

DHA agrees with the findings and recommendations. TDD/TTY endorsements allow the printing of the TDD/TTY phone number on envelopes to accommodate customers who may be hearing impaired. These were allowable charges per the previous contract with DFS from March 2005 to February 2010. DHA requested DFS to add the TDD/TTY endorsements to envelopes in 2006 and invoice the service as a separate line item. TDD/TTY endorsements were not an allowable charge in the contract period from March 2010 to October 2016, although the TDD/TTY endorsement service was, and continues to be, provided. DFS, upon being told by DOF that this was an issue, stopped charging DHA for TDD/TTY endorsements effective August 2016. DHA will improve contractual language, monitoring, and compliance to ensure TDD/TTY Endorsement invoicing issues are fully resolved.

In reviewing DOF's "Schedule of Disallowed Costs" for TDD/TTY endorsements, DFS was found to have over claimed \$124,680.38 to DHA. DHA is negotiating a resolution with DFS.

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Document Fulfillment Services (DFS)  
Contract Review  
For The Period From March 1, 2010 To October 31, 2016

Current Findings and Recommendations

**3. Mailing Invoices**

Comment

DHA's Contract with DFS indicates that DFS be reimbursed for metered mail at the United States Postal Service (USPS) Commercial 3-Digit rates.

For the period March 1, 2010 to October 31, 2016, we randomly selected and tested 17 mailing invoices with a total amount of \$275,323.97.

During our review of the postage rates to the USPS Commercial 3-Digit rates noted in the Contract, we noted DFS charged \$0.222, \$0.223, \$0.224, \$0.226, \$0.252, \$0.777, \$0.802, \$0.889, \$0.890, and \$1.150 rates for letters noted as "Other" that were not in the Contract for 17 mailing invoices. These rates for the "Other" letter mail amounted to \$8,705.21 or 3.16% (\$8,705.21/\$275,323.97) of mailing invoices tested. We considered \$8,705.21 to be questioned costs because these services were provided by DFS to DHA, but were not indicated in the Contract.

We also noted that DFS charged the incorrect postage rates for 14 of 17 mailing invoices. The incorrect rates charged on these 14 mailing invoices tested amounted to a total of \$14,457.82 or 5.25% (\$14,457.82/\$275,323.97). We considered \$14,457.82 to be disallowed costs because DFS charged more for each mail (letters or flats) than the USPS Commercial 3-digit rate.

The results of our testing are listed on page 4:



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 Department Of Human Assistance (DHA)  
 Document Fulfillment Services (DFS)  
 Contract Review  
 For The Period From March 1, 2010 To October 31, 2016

Current Findings and Recommendations

<b>Obtained from DFS's Invoice</b>				
<b>Invoice Number</b>	<b>Invoice Date</b>	<b>Amount Claimed</b>	<b>Questioned Costs</b>	<b>Disallowed Costs</b>
7976 P	July 6, 2010	\$ 3,369.28	49.88	32.90
8389 P	October 5, 2010	6,133.48	100.34	406.35
9019 P	February 16, 2011	5,705.39	119.76	16.68
9555 P	June 15, 2011	20,191.40	252.04	800.90
10472 P	October 31, 2011	28,305.88	254.48	42.53
11013 P	February 29, 2012	34,193.08	332.33	3,992.66
11064 P	March 6, 2012	8,774.46	186.25	1,011.39
12235 P	November 13, 2012	8,281.99	192.25	953.91
12600 P	January 22, 2013	26,450.95	344.10	2,047.71
14022 P (B)	February 25, 2013	253.25		
14422 P	April 16, 2013	7,732.59	213.56	0.61
15850 P	December 26, 2013	16,355.59	303.25	1,816.62
16021 P	January 28, 2014	8,278.06	192.48	1,059.15
16314 P	March 31, 2014	19,644.09	258.85	2,275.35
18107 P	November 25, 2014	19,198.10	1,719.97	1.06
19795 P	August 26, 2015	19,832.52	2,000.53	
20492 P	December 9, 2015	29,892.82	1,805.30	
20941 P	February 18, 2016	12,731.04	379.84	
		<b>\$ 275,323.97</b>	<b>8,705.21</b>	<b>14,457.82</b>

Based on the result of the above testing, \$8,705.21 or 3.16% (\$8,705.21/\$275,323.97) were questioned costs, and \$14,457.82 or 5.25% (\$14,457.82/\$275,323.97) were disallowed costs for mailing invoices tested. We confirmed the total mailing invoices claimed by DFS and paid by DHA in the amount of \$6,227,859.51 for the period from March 1, 2010 to October 31, 2016 (See Schedule I, *Schedule of Questioned Costs*, and Schedule II, *Schedule of Disallowed Costs*). Accordingly, we projected \$188,100.12, 3.16% of remaining invoices claimed not in our sample in the amount of \$5,952,535.54 (\$6,227,859.51 - \$275,323.97), as projected questioned costs. We also projected \$312,508.12, 5.25% (\$14,457.82/\$275,323.97) of remaining invoices claimed not in our sample in the amount of \$5,952,535.54 (\$6,227,859.51 - \$275,323.97), as projected disallowed costs.

The projected questioned and disallowed costs are extrapolated based on our testing with the assumption that the same average error rate applied to each invoice in the population for the entire period of this review.

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 Contract Review  
 For The Period From March 1, 2010 To October 31, 2016

Current Findings and Recommendations

The results of our testing are summarized below and at Schedule I, *Schedule of Questioned Costs*, and Schedule II, *Schedule of Disallowed Costs*.

<b>Total Amount Tested</b>	<b>Total Questioned Costs</b>	<b>Total Disallowed Costs</b>
<u><u>\$ 275,323.97</u></u>	<u><u>8,705.21</u></u>	<u><u>14,457.82</u></u>
<b>Total Amount Not Tested</b>	<b>Projected Questioned Costs</b>	<b>Projected Disallowed Costs</b>
<u><u>\$ 5,952,535.54</u></u>	<u><u>188,100.12</u></u>	<u><u>312,508.12</u></u>

Recommendation

We recommend DHA implement procedures to review the invoices to ensure the amounts billed are correct, supported by adequate backup documentation, and in accordance with the Contract prior to approving for payment to DFS. We further recommend DHA consider reviewing all invoices paid to DFS and determine any non-compliant charges. We also recommend DHA request new rates for new services and have the Contract amended prior to any new services performed by DFS not identified in the Contract.

We further recommend DHA resolve the total questioned costs in the amount of \$196,805.33 (\$8,705.21 + \$188,100.12). In addition, we recommend DHA to contact DFS to develop a resolution to resolve the total disallowed costs in the amount of \$326,965.94 (\$14,457.82 + \$312,508.12).

DHA Management's Response

DHA agrees with the findings and recommendations. Regarding disallowed costs related to postage rates, correct postage has been applied over the last two (2) years of the contract review period. Incorrect postage rates were applied on invoices in prior years in varying total amounts from \$0.61 to \$3,992.66. DFS has continually provided DHA with supporting documentation for reconciliation of all invoices, including detailed postage usage reports. Failure to reconcile the postage discrepancies are the error of DHA. No postage errors were found between December 2014 and October 2016. Improving DHA's contractual language, monitoring, and compliance of DFS will further ensure correct postage for mailings.

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Contract Review  
For The Period From March 1, 2010 To October 31, 2016

Current Findings and Recommendations

In reviewing DOF's "Schedule of Disallowed Costs" for incorrect postage rates, DFS over claimed \$326,965.94 to DHA. DHA is negotiating a resolution with DFS.

While DHA agrees the questioned cost finding is accurate, DHA determined these questioned services were requested by DHA and completed by DFS in a timely and cost-effective manner. The mailing of CalWIN client correspondence to homeless customers, which is required by law, remains as a "miscellaneous" but necessary service requested by DHA and satisfactorily completed by DFS. DHA requested DFS to mail CalWIN client correspondence for homeless customers prior to the beginning of this contract in 2010. Future miscellaneous services should continue to ensure fulfillment of State and program requirements, efficiency, cost-effectiveness, and improved customer service.

**4. Printing Invoices**

DHA is required by law to provide client correspondences to its clients within a certain time period. DHA retrieves the client correspondences from the California Work Opportunity and Responsibility to Kids Information Network (CalWIN) and California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS), and sends the client correspondences to DFS to print and mail on behalf of DHA.

For the period March 1, 2010 to October 31, 2016, we randomly selected and tested 17 printing invoices with a total amount of \$202,002.09.

Comment

**a. CalWIN Inserts**

We noted a difference of \$1.00 not charged to DHA from the CalWIN insert line item on invoice number 9218 dated March 31, 2011, and DFS's Client Consumption Summary report. Insert line items on invoices should agree to their Client Consumption Summary reports. See Schedule III, *Schedule of Charges Not Claimed by DFS*.

**b. Folding**

We noted a specific folding line item charge on invoice number 16814, dated June 30, 2014 in the amount of \$250.08. This service was not identified in the Contract as a separate charge for services by DFS. As such, we considered \$250.08 as questioned costs. See Schedule I, *Schedule of Questioned Costs*. We did not extrapolate the questioned cost due to this

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For The Period From March 1, 2010 To October 31, 2016

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exception was not a normal, recurring service provided by DFS to DHA and we did not note any additional folding line item charge from our testing.

**c. Notice of Language Services**

One Notice of Language Services accompanies Notice of Action (NOA) letters to ensure non-English and Limited English Proficient (LEP) individuals are aware of interpreter services for which they are entitled to.

We were informed that services requested by DHA for every outgoing mail should include a Notice of Language Services. We noted 3 of 17 invoices reviewed had Voice Response Unit (VRU) letters to foster care providers that had Notice of Language Services printed that were not charged to DHA on their invoices. Notice of Language Services printed should be charged on invoices to DHA for reimbursement. These 3 invoices with Notice of Language Services that were printed and not charged amounted to a total of \$185.74. See Schedule III, *Schedule of Charges Not Claimed by DFS*.

The remaining 14 invoices selected for testing with VRU letters had Notice of Language Services printed charged on their invoices to DHA for reimbursement.

In addition, we noted a difference of Notice of Language Services printed and inserted, in the amount of \$0.51 that was not claimed by DFS on invoice number 9298, dated April 20, 2011. See Schedule III, *Schedule of Charges Not Claimed by DFS*.

During our review, we observed the Notice of Language Services was a 2-sided printed page. We noted the number of outgoing mail from DFS's Client Consumption Summary report agreed to the number of Notice of Language Services printed on the invoices. Therefore, it appears that DFS charged DHA the 1-sided print image rate instead of the allowable 2-sided print image rate for printing of the Notice of Language Services. Per the Contract as stated on page 1 of 9, of this attachment, "*the price per image shall equal 1-side of printed page*". It appears that DFS charged DHA for one side of the printed Notice of Language Services for all 17 printing invoices randomly selected and tested for the period March 1, 2010 to October 31, 2016 in the amount of \$27,073.12. Therefore, it appears that DFS did not claim the second side of the printed notices in the amount of \$27,073.12 for all 17 printing invoices randomly selected and tested.

Per the information provided by DHA, the total Notice of Language Services that was charged to and paid by DHA for 1-sided print images from March 1, 2010 to October 31, 2016 was \$595,015.90. DHA's statement stated that DFS did not charge DHA

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For The Period From March 1, 2010 To October 31, 2016

Current Findings and Recommendations

the second side of the printed Notice of Language Services in the amount of \$595,015.90. We did not find any exception to this statement based on our testing of the 17 printing invoices. Therefore, we included the \$595,015.90 at Schedule III, *Schedule of Charges Not Claimed by DFS*.

Recommendation

We reiterate the recommendations in Finding #3.

We also recommend DHA resolve the folding charge in the amount \$250.08 which we considered to be questioned costs. In additional, we recommend DHA contact DFS to resolve the other exceptions noted in this finding.

DHA Management's Response

DHA agrees with the findings and recommendations. DHA will improve contractual language, monitoring, and compliance to ensure printing invoice issues are fully resolved.

While DHA agrees the questioned costs finding is accurate, DHA determined these questioned services and costs were requested by DHA and completed by DFS in a timely and cost-effective manner.

While DHA agrees with the finding that folding costs are questioned costs, DHA requested this service for the folding of voter registration forms in May 2014. State mandates and Medi-Cal regulations require that DHA mail out voter registration forms, provided by Sacramento County, Voter Registration and Elections on hard-stock paper, to DHA's Medi-Cal customers. Mailing voter registration forms to Medi-Cal customers is a necessary service requested by DHA, and satisfactorily completed by DFS. DFS has provided, and continues to provide folding services for the voter registration form to date. However, as DOF notes, this service is not a "normal, recurring service provided by DFS to DHA." DHA will ensure that the new contract allows for vital and urgent services, such as the folding of voter registrations forms, to be fulfilled by the future printing and mailing services contractor. Ensuring new and vital additional services are clearly included in the contract will prevent these types of costs from being classified as questioned costs. Future miscellaneous services may need to be included to ensure fulfillment of State and program requirements, efficiency, cost-effectiveness, and improved customer service.

DHA agrees with all three (3) under claim findings: Total Second Side of Notice of Language Services Print Images (\$595,015.90); VRU Notice of Language Services (\$186.25); and CalWIN Inserts (\$1.00). These findings were caused by DFS invoice billing errors and DHA invoice verification errors.

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Current Findings and Recommendations

In reviewing DOF's "Schedule of Charges Not Claimed by DFS," DFS under claimed \$595,203.15 to DHA. DHA is negotiating a resolution with DFS.

**DHA Management's Concluding Response**

DHA agrees with the findings and recommendations and will implement appropriate changes. With regards to the source documentation from CalWIN for printing, DOF's Procedure #2 (Source Documents for Number of Printing), DFS's printed images have been reconciled utilizing the original source documents provided by CalWIN. This finding is notable since printed images comprise over 95% of the contract printing costs.

Regarding questioned costs, these are items DHA requested of DFS. DFS completed DHA's requests in a timely and cost-effective manner. Failure to note these additional services in the existing contract is the responsibility of DHA.

Upon comparing DOF's "Schedule of Disallowed Costs" (\$451,646.32) against the "Schedule of Charges Not Claimed by DFS" (\$595,203.15), DFS under claimed \$143,556.83 to DHA. DHA is negotiating a resolution with DFS.

DHA has taken proactive steps to ensure increased clarity and compliance with the contract in the most recent contract amendment (Contract #WA00025381, Revision No. 4). DHA looks forward to applying DOF's recommendations and improving contractual language, monitoring, and compliance to ensure resolution of all issues.

County Of Sacramento  
Department Of Human Assistance (DHA)  
Document Fulfillment Services (DFS)  
Contract Review  
For the Period From March 1, 2010 To October 31, 2016

Current Status of Prior Findings and Recommendations

**Current Status of Prior Findings for the Period March 1, 2010 to June 30, 2016,  
Report Dated October 4, 2016**

**1. Internal Control Review**

Prior Comment

Document Fulfillment Services (DFS) did not have written procedures for its invoice claim submission and cost allocation for the County of Sacramento, Department of Human Assistance (DHA). Proper internal controls indicate written policies and procedures should be established and implemented to help the organization prepare its claim invoices and cost allocation efficiently and accurately, prevent errors, and comply with contract requirements. Without written policy and procedures for its invoice claim submission and cost allocation, DFS's staff did not have written procedures to follow, and therefore, could make claim submission errors. As such, we noted differences between the amounts claimed, backup supporting documentation, and CalWIN Client Correspondence Printing and Mailing, contract number WA00025381 (Contract) requirements as described at Finding #3.

Prior Recommendation

We recommended DFS establish and implement written policies and procedures for its invoice claim submission and cost allocation processes.

Prior DHA Management's Response

DHA agreed with the recommendation. DFS was in the process of securing audited financials, which required the creation of written policies and procedures for its invoice claim submission and cost allocation processes.

Current Status

It appears our recommendation has been partially implemented. See Current Finding #1 (Internal Controls) at Attachment I, *Current Findings and Recommendations*.

**2. Financial Statements Review**

We did not complete the financial statements review procedure. DFS did not provide audited financial statements for our review.

Prior Recommendation

We recommended in the future that DHA include a requirement in the Contract that DFS provide audited financial statements.

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Current Status of Prior Findings and Recommendations

**Current Status of Prior Findings for the Period March 1, 2010 to June 30, 2016,  
Report Dated October 4, 2016  
(Continued)**

Prior DHA Management's Response

DHA agreed with the recommendation. DFS provided summary financial statements during the audit. DFS was in the process of securing audited financial statements that would address these issues. DHA would require audited financial statements for the new contract.

Current Status

We are not engaged to perform agreed-upon procedures related to this finding due to the fact that the Contract has not been amended to require audited financial statements.

**3. Invoice Claims Review**

We did not complete this procedure. However, we noted several non-compliances based on limited procedures performed.

DFS provides printing and mailing services to DHA for its California Work Opportunity and Responsibility to Kids Information Network (CalWIN) and California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) correspondences.

Prior Comment

**a. TDD Endorsement**

Telecommunications Device for the Deaf (TDD/TTY) endorsement is a number for the deaf community to call so they are able to inquire about their correspondence(s).

Per the Contract, Section 3. Requirements, 3.6 states "*Mailing envelopes should include pre-printed return address, necessary postal indicia, County specified TDD/TTY phone number, and glass(l)ine address windows*" and on page 19, "*\*\*The price per image shall include cost of materials (paper, envelopes, etc.) and cost of processing (pickup/courier service, receiving and batching data, printing, folding, inserting, presorting, delivery to the USPS, etc.) Moreover, the price per image shall equal one-side of printed page and shall include all applicable sales tax.*"



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Based on the above Contract requirement, TDD endorsements should be included in the price per image rate and not charged separately at a \$0.0100 rate. We noted TDD endorsements were charged separately.

**b. Postage Rates**

DHA's Contract with DFS indicates that DFS be reimbursed for metered mail at the United States Postal Service (USPS) Commercial 3-Digit rates.

During our review of the postage rates to the USPS Commercial 3-Digit rates noted in the Contract, we noted some discrepancies as follows:

- DFS charged a \$0.222 rate for some letters that were not in the Contract.
- DFS charged the incorrect rates (USPS Mixed AADC [automated area distribution center] rate) for the one and two ounce(s) letters on the postage invoice dated September 30, 2010.
- DFS charged two ounces more for the commercial flats than the ounces noted on the Client Postage Summary report for postage invoice dated September 30, 2010.
- DFS charged the incorrect rate (USPS retail rate) for the flats on the postage invoice dated December 23, 2014.
- DFS's postage invoice dated December 23, 2014 shows a difference of amount from the CalWIN postage invoice amount to the Client Postage Summary report.

**c. CalWIN Insert**

We noted a difference between the CalWIN insert line items on the September 30, 2010 invoice and DFS's Client Consumption Summary report.

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Prior Recommendation

DFS should review the invoices and ensure the items charged are for the correct amount prior to submitting to DHA for reimbursement. We recommended DHA implement procedures to review the invoices to ensure the numbers assessed are correct, supported by adequate backup documentation, and in accordance with the Contract prior to remitting a check to DFS. We further recommended DHA review all invoices paid to DFS and determine any non-compliant charges, and contact DFS to develop a resolution to resolve the non-compliant charges.

Prior DHA Management's Response

DHA agreed with the recommendation. DFS currently provided backup documentation to support invoices and would continue to work with DHA to ensure invoices are reviewed and assessed correctly. DHA would work with DFS and the Statewide Automated Welfare System (SAWS) to obtain the necessary documentation to justify invoice claims.

DFS invoiced DHA at the 3-digit automation rate, which was a reduction of 7.1 cents per piece from the retail rate for the first ounce. In some unique cases, these prices may change depending on the specifications of the print job due to size, color, and weight.

DHA would ensure all invoice claims and charges are accurate, including but not limited to TDD endorsement, postage rate, and CalWIN insert charges, by the vendor per the contract by improving contractual language, monitoring, and compliance.

Current Status

We tested additional DFS's invoice claims and noted exceptions. See Current Findings #2 (TDD Endorsements), 3 (Mailing Invoices), and 4 (Printing Invoices) at Attachment I, *Current Findings and Recommendations*.

**4. Metered Postage**

Prior Comment

During our visit to DFS's office on July 21, 2016, we noted the postage on the sealed envelopes (mail pieces) were permit imprints and not metered postage. Permit imprint postage had the organization's name and U.S. postage paid stamped on the mail pieces. The

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permit imprint postage did not have the date stamped on the mail piece. A metered postage printed the postage with the date directly onto the mail pieces. Per the Contract, under the Postage section, "*Contractor shall apply postage with a meter showing the date of mailing*". As such, DFS was not in compliance with the Contract requirements.

Prior Recommendation

DFS should review the Contract and print the metered postage directly onto the mail pieces prior to delivery to the USPS per the Contract.

Prior DHA Management's Response

DHA would ensure accurate and cost-effective mailing procedures by the vendor per the contract by improving contractual language, monitoring and compliance. CalWIN client correspondence was sent by way of USPS as first-class mail. Each mail piece showed the date of mailing, especially important in the use of administrative hearings.

Current Status

We are not engaged to perform agreed-upon procedures related to this finding due to the fact that the Contract has not been amended to allow permit imprints for mail pieces.

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Schedule of Questioned Costs

	<u>Number of Invoices</u>	<u>Amount</u>
Total Printing Invoices	331	\$ 4,362,898.17
Total Mailing Invoices	331	<u>6,227,859.51</u>
<b>Total Printing And Mailing Invoices</b>		<b><u>\$ 10,590,757.68</u></b>
Total Printing Invoices Tested	17	\$ 202,002.09
Total Mailing Invoices Tested	17	<u>275,323.97</u>
<b>Total Printing And Mailing Invoices Tested</b>		<b><u>\$ 477,326.06</u></b>
<b>Questioned Costs</b>		
From Invoices Tested:		
Folding Charge <sup>(1)</sup>		\$ 250.08
Service Not In Contract <sup>(2)</sup>		8,705.21
Projected Questioned Costs For Service Not in Contract <sup>(3)</sup>		<u>188,100.12</u>
<b>Total Questioned Costs</b>		<b><u>\$ 197,055.41</u></b>

(1) See Finding #4b at Attachment I, *Current Findings and Recommendations*.

(2) See Finding #3 at Attachment I, *Current Findings and Recommendations*.

(3) Amount is the projected questioned costs based on 3.16% (\$8,705.21/\$275,323.97) of remaining invoices claimed by DFS and reimbursed by DHA not in our sample in the amount of \$5,952,535.54 (\$6,227,859.51 - \$275,323.97). See Finding #3 at Attachment I, *Current Findings and Recommendations* for the consideration of projected questioned costs.

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Schedule of Disallowed Costs

	<u>Number of Invoices</u>	<u>Amount</u>
Total Printing Invoices	331	\$ 4,362,898.17
Total Mailing Invoices	331	6,227,859.51
<b>Total Printing And Mailing Invoices</b>		<b><u>\$ 10,590,757.68</u></b>
Total Printing Invoices Tested	17	\$ 202,002.09
Total Mailing Invoices Tested	17	275,323.97
<b>Total Printing And Mailing Invoices Tested</b>		<b><u>\$ 477,326.06</u></b>
Total TDD Endorsement	331	\$ 124,680.38
Total TDD Endorsement Tested	29	12,787.58
<b>Disallowed Costs</b>		
Incorrect Postage Rates From Invoices Tested <sup>(1)</sup>		\$ 14,457.82
Projected Disallowed Costs For Incorrect Postage Rates <sup>(2)</sup>		312,508.12
Total TDD Endorsement Disallowed <sup>(3)</sup>		124,680.38
<b>Total Disallowed Costs</b>		<b><u>\$ 451,646.32</u></b>

(1) See Finding #3 at Attachment I, *Current Findings and Recommendations*.

(2) Amount is the projected disallowed costs based on 5.25% (\$14,457.82/\$275,323.97) of remaining invoices claimed by DFS and reimbursed by DHA not in our sample in the amount of \$5,952,535.54 (\$6,227,859.51 - \$275,323.97). See Finding #3 at Attachment I, *Current Findings and Recommendations* for the consideration of projected disallowed costs.

(3) See Finding #2 at Attachment I, *Current Findings and Recommendations*.

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Schedule of Charges Not Claimed By DFS

	<b>Number of Invoices</b>	<b>Amount</b>
Total Printing Invoices	331	\$ 4,362,898.17
Total Mailing Invoices	331	6,227,859.51
<b>Total Printing And Mailing Invoices</b>		<b><u>\$ 10,590,757.68</u></b>
Total Printing Invoices Tested	17	\$ 202,002.09
Total Mailing Invoices Tested	17	275,323.97
<b>Total Printing And Mailing Invoices Tested</b>		<b><u>\$ 477,326.06</u></b>
Total Notice of Language Services Claimed	331	\$ 595,015.90
Total Notice of Language Services Tested	17	27,073.12
<b>Charges Not Claimed By DFS</b>		
CalWIN Inserts <sup>(1)</sup>		\$ 1.00
VRU Notice of Language Services <sup>(2)</sup>		186.25
Total Second Side of Notice of Language Services Print Images <sup>(3)</sup>		595,015.90
<b>Total Charges Not Claimed By DFS</b>		<b><u>\$ 595,203.15</u></b>

(1) See Finding #4a at Attachment I, *Current Findings and Recommendations*.

(2) Amount consists of \$185.74 and \$0.51. See Finding #4c at Attachment I, *Current Findings and Recommendations*.

(3) See Finding #4c at Attachment I, *Current Findings and Recommendations*.