

COUNTY OF SACRAMENTO
CALIFORNIA

43

APPROVED

BOARD OF SUPERVISORS

By Res H 2017-0402

JUN 06 2017

By

Florence Cant

Clerk of the Board

For the Agenda of:
June 6, 2017
Timed: 10:00 a.m.

To: Board of Supervisors

From: Department of Human Assistance

Subject: Authorize An Agreement For CalWIN Client Correspondence Printing And Mailing Services To BIT California LLC, DBA Document Fulfillment Services, For The Amount Of \$9,440,694 Effective September 1, 2017, Through June 30, 2022

Supervisory
Districts: All

Contact: Ann Edwards, Director, (916) 875-3611
Mary Sabillo, Human Services Division Manager, (916) 875-3512

Overview

The Department of Human Assistance (DHA), with the concurrence of the Department of General Services, requests authority to execute an agreement with BIT California LLC, DBA Document Fulfillment Services, for CalWIN client correspondence printing and mailing services for the amount of \$9,440,694 effective September 1, 2017, through June 30, 2022, including an option to renew the contract for an additional five years through June 30, 2027.

Recommendations

Adopt the attached Resolution authorizing the Director of DHA, or her designee to:

1. Approve the contract award and execute an agreement with BIT California LLC, DBA Document Fulfillment Services, for CalWIN client correspondence printing and mailing services for the amount of \$9,440,694 effective September 1, 2017, through June 30, 2022, including an option to renew the contract for an additional five years through June 30, 2027.
2. Amend the agreement for non-monetary changes, monetary decreases and to increase the agreement up to \$25,000 or ten percent of the original contract amount, whichever is less, and when appropriate and necessary, to exercise the power to assign the agreement; and exercise the power to terminate, with or without cause, the agreement if/when necessary.

Measures/Evaluation

The contract will benefit the County by providing all necessary materials, equipment and labor to process and mail the CalWIN client correspondence on a timely basis. To ensure resolution of all issues noted in the second Agreed-Upon Procedures (AUP) conducted by the Department of Finance (DOF), DHA is applying the DOF recommendations to improve contractual language to allow for increased accountability for added services, including those that are mandated. DHA also will improve monitoring and compliance as recommended by DOF. Several improvements were incorporated into the current contract amendment and DHA will include more extensive improvements in the upcoming four-year and ten-month contract. DHA will implement new

invoicing and printed images validation controls using Hewlett Packard Enterprise Services' (HPE) original source reporting tool and DHA staff will continue to monitor, inspect, and evaluate the vendor's performance during the contract period.

Fiscal Impact

The FY 2017-18 cost of this contract is \$1,627,706, \$1,598,114 of which is funded with Federal and State allocations and the remaining amount of \$29,592 with General Fund. The expenditures and revenues are included in the Department's FY 2017-18 Requested Budget. The full-year cost of the contract will be \$1,953,247. The current annual contract amount is \$1,750,000.

BACKGROUND

On March 3, 2005, DHA went live with a new Statewide automated welfare system called CalWORKs Information Network (CalWIN). CalWIN is the primary business application utilized by DHA and 17 other California counties which form the CalWIN consortium. HPE provides information technology services that support CalWIN, including creating and sending client correspondence batch printing to the mailing and printing services vendor. Document Fulfillment Services (DFS) was the first vendor to provide the CalWIN client correspondence printing and mailing services to DHA (Resolution 2004-1477). Client correspondence includes notices or forms that are mailed to welfare clients to provide or request information about their cases. DFS was re-selected to provide these services effective March 1, 2010 (Resolution 2009-0983). On October 7, 2014, DHA obtained approval to extend the existing contract with DFS another two years, through February 28, 2017 (Resolution 2014-0692).

DFS also provides mailing and printing services to the following 15 counties in the CalWIN consortium: Alameda, Fresno, Orange, Placer, San Diego, San Francisco, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Solano, Sonoma, Ventura and Yolo. Two counties in the consortium, Contra Costa and Tulare, presently do their own printing. Attachment 1 includes the estimated annual quantities of print images (per side of a page), by county. Attachment 2 includes the types of CalWIN correspondence, and Sacramento County's estimated monthly and annual images. Attachment 3 includes a List of Languages and Dialects of CalWIN correspondence.

In 2004, DHA became the lead public agency in the CalWIN consortium to competitively solicit the CalWIN Correspondence Printing and Mailing Services. Currently, of the 18 counties in the CalWIN consortium, 15 counties have opted to reference Sacramento County's RFP and Board of Supervisors approved contract award when obtaining authorization to establish their own contracts for these services with DFS. This allows the other counties to forgo their bidding process. Sacramento County's RFP and contract award contains a Public Agency Participation provision that permits the participation by other public agencies through the referencing option, while protecting itself from their responsibilities and financial obligations.

Purchasing Action

On March 29, 2016, the Department of General Services (DGS), Contract and Purchasing Services Division (CAPSD), issued a Request for Proposal (RFP) on behalf of DHA seeking

proposals for the CalWIN client correspondence printing and mailing services. On April 28, 2016, DGS CAPSD received two proposals, one from DFS and one from KP LLC. DFS is located in Sacramento and KP LLC is located in West Sacramento. Since the contract value is over \$1 million over the life of the contract, DFS and KP LLC are not certified by the State as small or micro businesses, thus the Local Vendor Preference Program does not apply in the evaluation process.

DFS received the highest score in the RFP evaluation process. Representatives from Santa Barbara and Sonoma counties assisted with the scoring of the two proposals. Attachment 4 contains the score summary and the proposal evaluation criteria for the two proposals.

On September 16, 2016, DGS issued the notification of intent to award indicating DFS was the selected contractor, pending approval from the Board. On September 29, 2016, DGS received a letter (Attachment 5) from KP LLC protesting DHA's recommendation to award to DFS. After receiving the protest, representatives from DGS, DHA and County Counsel met to discuss the issues presented in KP LLC's protest and determined they were without merit. On October 7, 2016, DGS provided a written response (Attachment 6) to KP LLC, which includes concurrence from DHA and County Counsel.

On December 13, 2016, DHA obtained approval from the Board of Supervisors to extend the existing contract with DFS another six months, through August 31, 2017 (Resolution 2016-0999).

Contract Review

Prior to the re-selection of DFS, the DOF, Auditor-Controller Division, Audits Unit conducted an AUP review of the existing contract with DFS to ensure thorough due diligence in awarding the contract.

The Audits Unit was not able to complete all of the procedures as agreed upon due to the lack of information available, partially as a result of HPE's original source file data retention policies. The AUP review report was submitted to the Board on November 1, 2016 (Communication Received and Filed).

Over the years, DFS has worked extensively with the CalWIN contractor, HPE, to generate correspondence and improve forms and notices that maximize automation. In November 2016, HPE, which is responsible for creating and sending client correspondence to DFS, released a new original source file reporting tool. This HPE tool, developed in collaboration with the 15 other counties, ensures independent, original source file summary reporting and verification of the count of the vendor's print images for all 16 counties, including Sacramento County.

Upon receipt of this information, the Board determined, and DHA concurred, it would be best to request that DOF conduct another AUP review of the original source file data gathered through the use of this new reporting tool. This reporting tool was unavailable for deployment during the original DOF contract review which ended in October 2016.

A second AUP review was initiated January 13, 2017, to follow up on the exceptions noted in the prior AUP review. The AUP review report is on the June 6, 2017, Board agenda (Communication Received and Filed, Attachment 7). DHA agreed with the findings and recommendations and will implement appropriate changes. With regards to the source documents to reconcile the number of printed images from HPE/CalWIN, 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 were items DHA requested from 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 for the under claimed amount.

USPS First-Class Postage

CalWIN client correspondence is sent by way of USPS as first-class mail. The postage is applied by the vendor to show the date of mailing. Thus, the payment of postage is handled through the contract. DFS will invoice DHA using the most current USPS automation postage rates applying either the vendor's USPS permit imprint indicia or postage meter. DFS also combines mail pieces going to the same address, also known as "householding," to provide significant postage savings.

DISCUSSION

On December 13, 2016, the Board approved a contract extension which allowed time for sufficient due diligence and a more thorough contract review by DOF using original source documents to reconcile the number of printed images. DFS's printed images have been reconciled utilizing the original source documents provided by CalWIN. The mailing of voter registration forms to Medi-Cal clients and general client correspondence to homeless clients were requested by DHA to comply with local, State, and Federal regulations, answering the DOF finding of questioned costs. Failure to note these additional, but mandated, services in the existing contract was the responsibility of DHA. As for disallowed costs, DHA is negotiating a resolution with DFS for the under claimed amount of \$143,556.83 to DHA. DHA agreed with the findings and recommendations in the AUP report dated April 24, 2017 (Attachment 7) and will implement appropriate changes.

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 will apply the DOF recommendations and improve contractual language, monitoring, and compliance to ensure resolution of all issues noted in the AUP. These improvements will also apply to the upcoming four-year and ten-month contract.

When the existing contract ends on August 31, 2017, DFS will have over 12 years of experience in providing the CalWIN client correspondence printing and mailing services to Sacramento County. DFS proactively has, and continues to modernize their printing and mailing services to maximize efficiencies and oversight controls that benefit DHA and DHA's customers. DHA recommends that the Board authorize the Director to execute an agreement with BIT California LLC, DBA Document Fulfillment Services, in order to provide continuous, uninterrupted quality printing and mailing services for CalWIN client correspondence.

All evaluation team members and participating department personnel understand and have documented that they will comply with the County procurement code of ethics and the appropriate signed documentation has been filed with CAPSD and the County Department of Personnel.

MEASURES/EVALUATION

The contract will benefit the County by providing all necessary materials, equipment and labor to process and mail the CalWIN client correspondence on a timely basis. To ensure resolution of all issues noted in the Agreed-Upon Procedures (AUP) conducted by the Department of Finance (DOF), DHA is applying the DOF recommendations to improve contractual language to allow for increased accountability for added services, including those that are mandated. DHA also will improve monitoring, and compliance as recommended by DOF. These improvements were incorporated into the current contract amendment and DHA will include them in the upcoming four year and ten month contract. DHA will implement new invoicing and printed images validation controls using HPE's original source reporting tool and DHA staff will continue to monitor, inspect, and evaluate the vendor's performance during the contract period.

71-J Analysis

The recommended contract is subject to the requirements of Section 71-J of the Sacramento County Charter. Section 71-J permits the County to contract for services for reasons of economy and efficiency if current civil service employees are not displaced, contracts are awarded through a competitive selection process, and the County has met and conferred with recognized labor organizations representing affected employee job classifications.

This contract is necessary for reasons of economy and efficiency because it has been determined that the County does not have the staff, equipment, or office space to perform all elements of the printing, mailing, and postage application services. Although DGS utilizes staff to perform printing and mailing services, the particular type of correspondence issued by the Department of Human Assistance is voluminous. CalWIN's current estimated annual print volume for the County of Sacramento is 13,356,000, one of the highest outputs compared to other California counties that issue similar documentation via the CalWIN system. Further, attempting to separate the printing and mailing functions, with some being performed internally and other elements being performed externally, would jeopardize the security of such documents, eliminate tracking abilities, and create delays in mailing vital and time-sensitive client correspondence materials.

No civil service employees will be displaced as a result of this contract. A competitive selection process was used with the issuance of RFP8352 by DGS. The Department notified the impacted unions or representative groups. Stationary Engineers, Local 39 (Operations and Maintenance Unit) and United Public Employees of California (028 Unit) were notified, but neither requested to meet and confer.

County Counsel has reviewed this contract and has determined that all criteria for a 71-J contract have been satisfied.

FINANCIAL ANALYSIS

The FY 2017-18 cost of this contract is \$1,627,706, \$1,598,114 of which is funded with Federal and State allocations and the remaining amount of \$29,592 with General Fund. The expenditures and revenues are included in the Department's FY 2017-18 Requested Budget. The full-year cost of the contract will be \$1,953,247. The current annual contract amount is \$1,750,000.

Respectfully submitted,

APPROVED:
NAVDEEP S. GILL
County Executive

ANN EDWARDS, Director
Department of Human Assistance

By: _____
PAUL G. LAKE
Deputy County Executive

Concurrence as to required purchasing procedures:

MICHAEL M. MORSE, Director
Department of General Services

Attachments:

Resolution

Attachment 1 – List of CalWIN Counties Served by DFS and Estimated Annual Volumes

Attachment 2 – Types of CalWIN Client Correspondence and Sacramento County's Estimated
Monthly and Annual Volumes

Attachment 3 – List of Languages and Dialects of CalWIN Correspondence

Attachment 4 – RFP8352 Scoring Summary and Proposal Evaluation Criteria

Attachment 5 – Protest Letter from KP LLC

Attachment 6 – Protest Response Letter to KP LLC

Attachment 7 – April 24, 2017 Letter from Ben Lamera to Ann Edwards RE: Independent
Accountant's Report On Applying Agreed-Upon Procedures
(Communication Received and Filed, June 6, 2017)

RESOLUTION NO. 2017-0402

**AUTHORIZE AN AGREEMENT FOR CALWIN CLIENT CORRESPONDENCE
PRINTING AND MAILING SERVICES TO BIT CALIFORNIA LLC, DBA
DOCUMENT FULFILLMENT SERVICES, FOR THE AMOUNT OF \$9,440,694
EFFECTIVE SEPTEMBER 1, 2017, THROUGH JUNE 30, 2022**

WHEREAS, County of Sacramento (County) requires a contract for CalWIN client correspondence printing and mailing services; and

WHEREAS, the Department of General Services (DGS), Contract and Purchasing Services Division (CAPSD), issued a Request for Proposal (RFP) seeking proposals for the CalWIN client correspondence printing and mailing services (RFP8352); and

WHEREAS, BIT California DBA Document Fulfillment Services received the highest score in the RFP evaluation process; and

WHEREAS, the provisions of Section 71-J of the Sacramento County Charter (Section 71-J) are applicable to the contract for CalWIN client correspondence printing and mailing services because County civil service employees are currently using postage meters to apply postage to the County's outgoing mail; and

WHEREAS, Section 71-J permits the County to contract for County services for reasons of economy and efficiency if displacement of current civil service employees does not occur, and if such contract is awarded through a competitive selection process, and if the County has met and conferred with any organization that represents County employees who perform the type of services to be contracted; and

WHEREAS, the Department of Human Assistance has met the competitive bid requirements of Section 71-J with the issuance of RFP8352; and

WHEREAS, the County has offered to meet and confer with Stationary Engineers, Local 39 (Operations and Maintenance Unit), and United Public Employees of California (028 Unit), but neither has requested to meet;

NOW, THEREFORE, BE IT RESOLVED by the Board of Supervisors of the County of Sacramento, State of California, that this Board finds as follows:

1. This contract is enacted for reasons of economy and efficiency; and
2. No civil service employee will be displaced by the enactment of this contract; and
3. This contract was awarded through a competitive selection process; and
4. The County has offered to meet and confer with Stationary Engineers, Local 39 (Operations and Maintenance Unit), and United Public Employees of California (028 Unit), but neither has requested to meet.

BE IT FURTHER RESOLVED that the Director of the Department of Human Assistance, or her designee, be and is hereby authorized and directed to execute a contract for CalWIN client correspondence printing and mailing services, on behalf of the COUNTY OF SACRAMENTO, a political subdivision of the State of California, with BIT California, DBA Document Fulfillment Services of Sacramento, California for the amount of \$9,440,694 effective September 1, 2017, through June 30, 2022.

BE IT FURTHER RESOLVED that the Sacramento County Board of Supervisors authorizes the Director of the Department of Human Assistance, or her designee, authority to amend the agreement for non-monetary changes, monetary decreases or to increase the agreement for up to \$25,000 or ten percent of the original contract, whichever is less; to exercise the power to terminate, with or without cause, the agreement when necessary; and, when appropriate and necessary, to exercise the power to assign the agreement; and to do and perform everything necessary to carry out the purpose of this Resolution.

On a motion by Supervisor Serna, seconded by Supervisor Kennedy, the foregoing Resolution was passed and adopted by the Board of Supervisors of the County of Sacramento this 6th day of June, 2017, by the following vote, to wit:

AYES: SUPERVISORS: Frost, Kennedy, Peters, Serna, Nottoli

NOES: NONE

ABSENT: NONE

ABSTAIN: NONE

REGUSAL: NONE

PER POLITICAL REFORM ACT (§ 18702.5)



ATTEST:

Florence Evans
Clerk, Board of Supervisors

FILED
BOARD OF SUPERVISORS

JUN 06 2017
Florence Evans
CLERK OF THE BOARD

Don Nottoli
Chair of the Board of Supervisors
of Sacramento County, California

In accordance with Section 25103 of the Government Code of the State of California a copy of the document has been delivered to the Chair of the Board of Supervisors, County of Sacramento on 6/6/17

By: *V. Bohus*
Deputy Clerk, Board of Supervisors

List of CalWIN Counties Served by DFS
And Estimated Annual Volumes

CalWIN Counties' Estimated Annual Print Volume*

County Name	Estimated Annual Print Images
Alameda	11,272,057
Contra Costa	Presently, this county does its own printing or contracting.
Fresno	8,817,097
Orange	13,903,251
Placer	863,334
Sacramento	22,896,000
San Diego	14,944,829
San Francisco	3,060,865
San Luis Obispo	1,118,741
San Mateo	2,625,230
Santa Barbara	1,451,049
Santa Clara	7,771,428
Santa Cruz	1,848,111
Solano	2,147,208
Sonoma	1,729,684
Tulare	Presently, this county does its own printing or contracting.
Ventura	2,687,970
Yolo	758,552
Total	97,895,406

*Counties were surveyed in 2016 about their printing volume. If counties did not respond, 2009 figures were used. Sacramento's volume assumes printing of renewal packets, which other counties did not include.

Types of CalWIN Client Correspondence
And Sacramento County's Estimated Monthly and Annual Volumes

Correspondence Type	Frequency Produced	Quantity of Documents Produced	Number of Images per Document	Day End Images	Month End Images	Annual
Form SAR 7	Monthly	8,000	4		32,000	
(X NOA)	Monthly	5,500	2		11,000	
Balderas Notice	Monthly	2,500	2		5,000	
Medi-Cal Renewals						
Packets	Monthly	10,000	60		600,000	
CalFresh Renewal Packets	Monthly	6,000	50		300,000	
CalWORKs Renewals	Monthly	3,000	100		300,000	
Daily Correspondences	Daily	7,500	4	30,000	660,000*	
Totals (Monthly)					1,908,000	
Totals (Annually)						22,896,000

*Based on an average of 22 working days per month

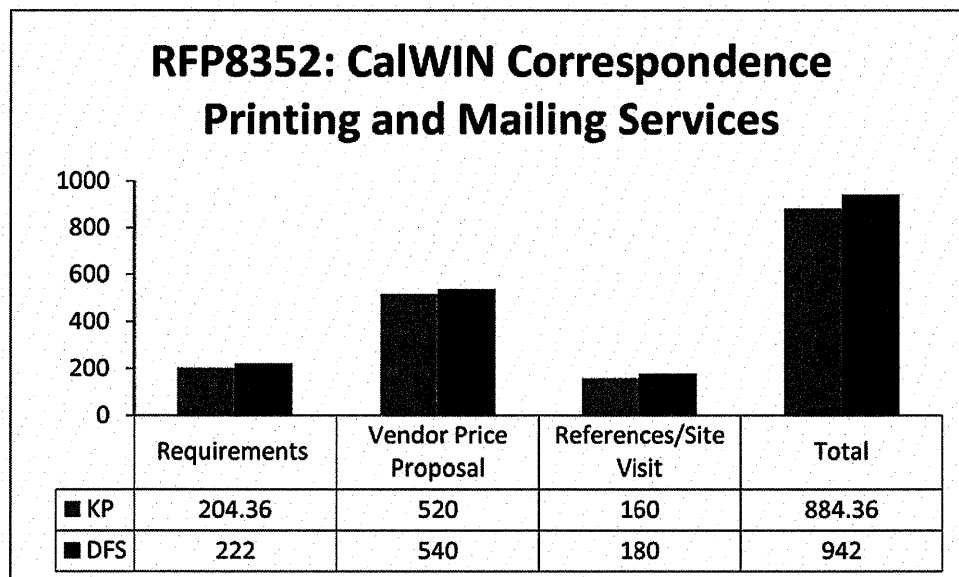
Languages and Dialects
of CalWIN Client Correspondence

Languages and Dialects: A list of languages and dialects supported by CalWIN Client Correspondence Printing

1	English
2	Spanish
3	Russian
4	Chinese
5	Vietnamese
6	Hmong
7	Laotian
8	Farsi
9	Arabic
10	Armenian
11	Cambodian
12	Korean
13	Tagalog
14	Cushite*
15	Formosan*
16	Japanese*
17	Mein*
18	Punjabi*
19	Portuguese*
20	Syriac*
21	Ukrainian*

*Language needs may expand to be within regulation and law.

RFP8352 Scoring Summary and Proposal Evaluation Criteria



Proposal Evaluation Criteria (Points and Weights are Available Upon Request):

- Requirements
 - Meets time frames
 - Availability, accuracy, & security of EDI
 - Services
 - Inserts
 - Duplex printing
 - Paper size
 - Paper weight
 - Barcodes
 - Able to hold documents by type
 - Price per letter image for DVDs or other media
 - Automated production processes and tracking
 - Overview of firm's history and operations
 - Firm's disaster recovery plan
 - Firm's processing and EDI capabilities
 - Firm's process to produce letters and data flow
 - Firm's inventory management capabilities
 - Firm's equipment, labor force, facility and address
 - Hour of operation
 - Firm's working relationship with the USPS
 - Principal process contacts
 - Company ownership and related resumes
 - References
 - Samples of Printed Output
 - Preferred avenues of communication
 - USPS CASS certification

**RFP8352 Scoring Summary
and Proposal Evaluation Criteria**

- Clarification, exception or deviation Response 7.14, as entered in Appendix E
 - Accuracy of Invoicing
 - Local Preference
- Vendor Price Proposal
 - Years 1-10
- References and Site Visit
 - At least two references will be checked for the top two scoring proposals. A site visit may be made to the two vendors with the highest score above. The sites visited shall be the location where the work is proposed to be done. Notwithstanding, the County may instead request that the top two vendors send a short video showing pertinent print and mail operations from their proposed facilities.

Protest Letter from KP LLC

From: Brett Olszewski <BOlszewski@KPCorp.com>
Sent: Thursday, September 29, 2016 5:00 PM
To: Lee. Tom; Choi. Timothy
Cc: Sheri Lambert
Subject: KP LLC - Protest for Bid RFP8352
Attachments: KP LLC Protest A - RFP8352 - FINAL.pdf; KP LLC Protest B - RFP8352 - FINAL.pdf; KP LLC Protest C - RFP8352 - FINAL.pdf

Tom and Tim,

Thank you for the meeting on Tuesday regarding the CalWIN program RFP Intent to Award. As I mentioned at the meeting, we truly appreciate your willingness to address our questions and concerns in-person.

While our concerns were acknowledged and verified, the answers were incomplete. We didn't fully understand or agree with the rationale for why certain decisions were made. And, any remedies for those decisions were geared towards making the required corrections in the future, after this RFP was behind us. Unfortunately, we feel that a formal protest is warranted.

Respectfully, I am submitting these protest materials with the following cover letter. Sheri has also dropped off hard copies today at Tom's Office.

KP LLC (KP), having responded to the contract in question, respectfully protests and contests the contract award to BIT California dba Document Fulfillment Services (BIT/DFS) per the Notice of Intent to Award regarding: RFP8352: CalWIN Client Correspondence Printing and Mailing. Our position consists of three separate protests:

1. **KP LLC - Protest A for Bid RFP8352** - Upon review of the submission materials for the finalists available on the RFP8352 web site, it was discovered that a critical risk assessment answer was intentionally and knowingly falsified by BIT/DFS to cover up dishonest activity in order to be selected. Thus, the bidder's submission should have been disqualified.
2. **KP LLC - Protest B for Bid RFP8352** - This asserts that Purchasing made identifiable mathematical errors in the evaluation process, resulting in an unjust disadvantage - overstating KP LLC's actual price. The correct pricing is lower than calculated based on additional information brought forth by Purchasing in the RFP evaluation process. A recalculation of actual pricing, not RFP scoring, is warranted as there are additional, lower prices available to all the Counties participating in the CalWIN program represented in this RFP. Why would the County not want to recalculate and achieve these savings?
3. **KP LLC - Protest C for Bid RFP8352** - This asserts that Purchasing failed to follow necessary, chronological events in the evaluation process and demonstrated bias in the premature selection of the incumbent bidder, BIT/DFS, as the contract awardee. BIT/DFS was selected as the contract winning bidder while there was a pending and active investigative audit, by the County Auditor's Office, being conducted on them.

We have attached the relevant documentation supporting these claims.

We respectfully request that the intent to award be rescinded and the responses be re-evaluated in light of this information.

Thank you for your consideration in making this a fair evaluation.

Regards,
 Brett

Brett Olszewski
 Chief Sales and Marketing Officer
 408.230.2058
 KP work smarter spend less

Department of General Services
Michael M. Morse, Director



Divisions
Administrative and Business Services
Construction Management and Inspection
Contract and Purchasing Services
Facility and Property Services
Fleet Services

County of Sacramento

October 7, 2016

Mr. Brett Olszewski
Chief Sales & Marketing Officer
bolszewski@kpcorp.com

Ms. Sheri Lambert
Major Account Manager
slambert@kpcorp.com

Subject: Protest Response Regarding Notice of Intent to Award for
RFP8352: CalWIN Client Correspondence Printing and Mailing

Dear Mr. Olszewski,

Thank you for submitting your letter of protest. The following is in reply to each of your items of protest:

KP LLC Protest A: *Upon review of the submission materials for the finalists available on the RFP8352 web site, it was discovered that a critical risk assessment answer was intentionally and knowingly falsified by BIT/DFS to cover up dishonest activity in order to be selected. Thus, the bidder's submission should have been disqualified.*

Response to Protest A: Question 27 in "Appendix K – Risk Assessment Questionnaire" refers to criminal convictions, not civil judgments. Based on the evidence you provided, there is no evidence of Mr. Shill being convicted of a federal or state crime. Therefore, DFS's response to question 27 is truthful and correct.

KP LLC Protest B: *This asserts that Purchasing made identifiable mathematical errors in the evaluation process, resulting in an unjust disadvantage – overstating KP LLC's actual price. The correct pricing is lower than calculated based on additional information brought forth by Purchasing in the RFP evaluation process. A recalculation of actual pricing, not RFP scoring, is warranted as there are additional, lower prices available to all the Counties participating in the CalWIN program represented in this RFP. Why would the County not want to recalculate and achieve these savings?*

Response to Protest B: KP LLC was already awarded the higher score for price per image for PCL5 and PDF files than their competitor during the RFP evaluation. A recalculation of actual pricing

October 7, 2016

would not change the evaluation score in the price proposal subtotal, or the proposal total. A recalculation of actual pricing is unwarranted.

In addition, the instruction for the evaluators states the following:

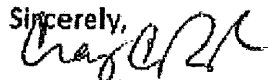
"Each question in this RFP will be scored based on how well the bidder answers meet the requirements of this RFP. The scores will be tallied and a final score for each bidder will be given. The selection of the winning bid will not be based solely on price, but also on the probability that his/her company has the resources and experience to successfully complete the contract. Any final analysis or weighted point score does not imply that one proposal is superior to another, but simply that in our judgement the proposal(s) we select offer(s) the best overall solution for our current and anticipated needs."

KP LLC Protest C: *This asserts that Purchasing failed to follow necessary, chronological events in the evaluation process and demonstrated bias in the premature selection of the incumbent bidder, BIT/DFS, as the contract awardee. BIT/DFS was selected as the contract winning bidder while there was a pending and active investigative audit, by the County Auditor's Office, being conducted on them.*

Response to Protest C: In addition to the standard evaluation procedures as outlined in RFP8352, Purchasing issued the intent to award after also considering the draft Agreed-Upon Procedures (AUP) review completed by the Department of Finance for the Department of Human Assistance. Purchasing issued the letter of intent to award on 9/16 based on a fair and thorough evaluation process.

After careful consideration of your protest items, the County of Sacramento affirms the Notice of Intent to Award to Document Fulfillment Services dated September 16, 2016, and is moving forward in awarding RFP8352 to Document Fulfillment Services.

Sincerely,



Craig Rader, Purchasing Agent

(916) 876-6362

raderc@saccounty.net

Concur:

/s/ Michael Morse

Michael Morse, Director
Department of General Services

/s/ Ann Edwards

Ann Edwards, Director
Department of Human Assistance

/s/ Rick Heyer

Rick Heyer, Deputy County Counsel
County Counsel



Internal Services
Department of Finance
Auditor-Controller Division

Joyce Renison,
Assistant Auditor-Controller

County of Sacramento

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.

Ann Edwards, Director
April 24, 2017
Page 2 of 4

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*.

Ann Edwards, Director
April 24, 2017
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- 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.

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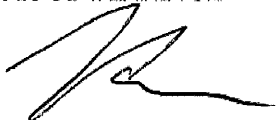
The projected questioned and disallowed costs presented in Attachment I, *Current Findings and Recommendations*, Schedule I, *Schedules of Questioned Costs*, and Schedule II, *Schedule of Disallowed Costs* are extrapolated based on our testing with the assumption that the same average error rate applied 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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Document Fulfillment Services (DFS)
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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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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

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:

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

Obtained from DFS's Invoice				
Invoice Number	Invoice Date	Amount Claimed	Questioned Costs	Disallowed Costs
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	
		\$ 275,323.97	8,705.21	14,457.82

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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Document Fulfillment Services (DFS)
Contract Review
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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*.

Total Amount Tested	Total Questioned Costs	Total Disallowed Costs
<u><u>\$ 275,323.97</u></u>	<u><u>8,705.21</u></u>	<u><u>14,457.82</u></u>
Total Amount Not Tested	Projected Questioned Costs	Projected Disallowed Costs
<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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Document Fulfillment Services (DFS)
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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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Current Findings and Recommendations

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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Document Fulfillment Services (DFS)
Contract Review
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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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

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.

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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 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.

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
(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.*"

County Of Sacramento
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Document Fulfillment Services (DFS)
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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)**

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.

County Of Sacramento
Department Of Human Assistance (DHA)
Document Fulfillment Services (DFS)
Contract Review
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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 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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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
(Continued)**

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

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

⁽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

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

⁽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*.