

DEPARTMENT OF HEALTH SERVICES

Investigations of Improper Activities by State Employees, January 2005 Through June 2005

INVESTIGATION I2004-0930 (REPORT I2005-2), SEPTEMBER 2005

Investigative Highlights...

Department of Health Services:

- Improperly paid contract staff \$57,788 for services it did not receive.***
 - Circumvented procurement procedures and purchased \$40,698 in equipment on a services contract.***
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We investigated and substantiated an allegation that the Department of Health Services (department), Genetic Disease Branch (branch) improperly paid a contractor for holiday time and improperly purchased equipment under personal and computer services contracts.

Finding #1: The branch improperly paid for contract staff holiday time.

We believe the branch may have violated state law prohibiting gifts of public funds by paying contract employees more than they were entitled to receive. Although terms of the contract did not require it to do so, the branch authorized payment for 13 holidays to Contractor A's staff from December 2003 through November 2004, costing the State \$57,788 for services it did not receive. The contract under which the branch made these payments specifies that services shall be provided Monday through Friday, 8:00 a.m. to 5:00 p.m., except for official state holidays.

The branch stated that effective January 1, 2004, it amended Contractor A's three contracts to provide for holiday pay and provided a holiday pay schedule developed and approved by a former branch employee. However, it was never processed through the department's contracts section, and therefore, did not constitute a formal, authorized written amendment to the contract.

Finding #2: The branch circumvented procurement procedures.

The branch circumvented state procurement procedures by using services contracts with both Contractor A and Contractor B to purchase two computers, three fax machines, and two laser printers for the branch. The computers cost \$35,000, the fax machines cost \$1,845 and the printers cost \$3,853.

The branch's agreement with Contractor B was for the contractor to provide maintenance of computer hardware and software. The branch circumvented the goals of state law as well as state procurement procedures by using money from this computer services contract to purchase two computers.

Specifically, the branch approved a \$15,500 invoice from Contractor B for, as the invoice stated, "time and materials not covered under the terms and conditions of the regular maintenance agreement" but was actually for the cost of the two computers. We believe the information on this invoice was a misleading statement about the true nature of the transaction. Further, it appears that the branch was aware of the true nature of the amount claimed on the invoice when it approved payment, thereby not only circumventing state procurement procedures but also approving and perpetuating misleading information. The branch also approved a second invoice from Contractor B for \$19,500 with the same description of services. The branch told us this invoice was for the installation of emergency backup computers in Sacramento, something that was necessary as part of the recovery system required for critical public health services. It further said both invoices were approved under the mistaken impression that the contract had been amended to provide for this equipment.

Similarly, the branch used a personal services contract with Contractor A to purchase fax machines and laser printers. The branch circumvented state procurement procedures requiring departments to obtain price quotes and compare prices. Furthermore, the contractor charged the branch another 10 percent for "additional administrative and accounting expenses."

Department's Action: Pending.

The department has requested to review our working papers and is in the process of determining what action to take.