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Internal Audit Report: Contract Compliance

Department of Human Services: Arlington Thrive, Inc.
Contract No. 22-DHS-EP-8

Report Date: April 24, 2024

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TRANSMITTAL LETTER

April 24, 2024

Anita Friedman
Director, Department of Human Services

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Arlington, VA 22201

Pursuant to the contract and related statement of work for Arlington County, Virginia (County), we hereby present this contract compliance internal audit report for the County's Department of Human Services – Arlington Thrive, Inc. (Thrive) Contract Agreement No. 22-DHS-EP-8 (Contract). Our report is organized in the following sections:

Executive Summary	This section includes a background summary of the function, the objectives and approach, and a detailed description of the observation(s) noted during this audit.
Background	This section provides an overview of the function within the process and pertinent operational control points and related compliance requirements.
Objectives and Approach	The audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.

As described in our objectives and approach outlined on pages 12 through 14 of this report, the observations noted are based on our analysis of the processes, documents, records and information requested and provided to us by the County and Arlington Thrive. This contract compliance audit focused on determining whether Thrive's processes and procedures around fund disbursements were in compliance with the terms and conditions of the Contract, as it relates to allowable costs under each program / funding stream, and the clerical accuracy of Thrive's quarterly financial reporting packages.

We would like to thank the staff and all those involved in assisting RSM US LLP with this contract compliance audit.

Respectfully Submitted,

RSM US LLP

EXECUTIVE SUMMARY

Background

The Arlington Thrive, Inc. (Thrive, Contractor) contract selected for this contract compliance audit is managed by a Project Officer in the Department of Human Services (DHS, County). Agreement No. 22-DHS-EP-8 (Contract), a third-party services contract, requires Thrive to provide financial assistance to eligible Arlington County residents in accordance with various programs/funding streams, as detailed in the Contract. The Contract went into effect on July 1, 2021. There have been eighteen (18) amendments related to the Contract, with effective dates between August 19, 2021 and May 18, 2023, that revise certain terms, programs, budgets and the expiration date of the Contract. The Contract expired as of October 31, 2023 and the County transitioned to a new provider for these services.

During FY2022 and FY2023, the County provided over $10.7M in funding under the Contract. These funds provide emergency financial assistance to County Residents, that meet eligibility requirements, through the following major programs/funding streams:

	Total Funding Provided
Carter-Jenkinson Housing Assistance Fund	$ 8,887,504
The Daily Needs Fund	319,186
Emergency Lodging	66,554
Permanent Supportive Housing Emergency / Maintenance Fund	213,599
Other Funding	97,532
Cash Pilot Coach / Case Managers *(not included in 10% cap)*	382,003
Administration and Personnel *(subject to 10% cap)*	798,466
Total Funding from County	**$ 10,764,844**

The County was concerned with inconsistencies in the quarterly financial report data that Thrive submitted during the audit period. The audit confirmed that the quarterly financial reports Thrive submitted to the County were not complete and accurate. (See Observation 1)

Objective and Scope

The objective of this contract compliance review was to determine whether Arlington Thrive, Inc.'s (Thrive) processes and procedures around fund disbursements are in compliance with the terms and conditions of the Contract, as it relates to allowable costs under each program/funding stream, and the clerical accuracy of Thrive's quarterly financial reporting packages.

The audit period was July 1, 2021 through October 31, 2023. As part of our review, we conducted various walkthrough discussions with Thrive to understand its processes and procedures as it relates to the County-funded programs. The scope of testing included reviewing Thrive's general ledger detail and bank account transactions to evaluate whether the funding provided by the County was properly deposited in the appropriate program, as well as whether the funding was spent on costs relevant to the specified programs. We reviewed a sample of applicable payments made during the audit period under the various programs, including supporting documentation for the related funding requests, proof of payments, and reporting by Thrive for these selected payments.

We also performed recalculations of each program's ending balance at Contract expiration to evaluate whether the funding returned to the County appeared to be complete and accurate.

Fieldwork was performed December 2023 through April 2024.

Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings allow for the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider when determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or 'brand' risk.

Number of Observations by Risk Rating
(See page 15 for rating definitions)

	High	Moderate	Low
Contract Compliance Audit: Thrive	2	2	-

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations

Observation	1. Inaccurate quarterly financial reports submitted to the County
High	Under the Contract (Exhibit A, Section 4), Thrive is required to submit to the County *"a quarterly financial report for the Carter-Jenkinson Housing Assistance Fund, the Daily Needs Fund, and the Emergency Lodging Fund showing actual expenses for the quarter no later than the 15th of the month after the quarter ends…"* We reviewed general ledger detailed reports, workbooks, calculations, or other documentation used by Thrive to consolidate and calculate the quarterly financial reports. The actual costs reported in the quarterly financial reports did not agree to the costs reported in the general ledger for the same periods, and Thrive could not provide a reconciliation between the quarterly financial reports and the general ledger to explain the variances. When we inquired with Thrive as to the reason for the discrepancies, Thrive indicated that its books and records were not yet finalized and closed at the time that reports were due to the County (by the 15th of the month after quarter end), causing errors and inaccuracies in the submitted quarterly financial reports. However, based on our audit discussions and procedures, it does not appear that the timing of the quarterly financial reports was the main cause of inaccurate reporting. During the audit period, Thrive experienced significant increases in funding dollars and related program expenses for aid for County residents (due to the COVID-19 pandemic emergent issues). This period of rapid growth also coincided with key personnel turnover at Thrive, which may have contributed to the inconsistencies in the quarterly financial reports. Additionally processes and procedures were not in place to properly document and account for certain transactions such as voided checks, administrative costs, and transfers between accounts as described in Observation 2, 3, and 4.
Recommendation	Assuming a similar requirement exists under the County's contract with subsequent vendors, we recommend that the County collaborate with its Contractor to determine its quarter end close timing, to evaluate whether submitting complete and accurate quarterly financial reports by the 15th of the month following the calendar quarter is feasible and, if not, to provide a reasonable deadline. Additionally, it is recommended that the format of the quarterly reports be updated to include details regarding the spending of funds received from the County during the quarter, transfers of funding between programs, as well as any voided checks related to previously reported disbursements. Submittal of the quarterly reports should include the appropriate supporting financial reports, as required by the County.
Management's Action Plan	**Response:** The Economic Independence Division, within the Department of Human Services, has already established mutually agreed upon due dates for quarterly reports with our new vendor. The Economic Independence Division will also ensure that our contract with the new vendor includes all of the recommended quarterly reporting requirements mentioned above. If need be, a contract amendment through Purchasing will be implemented. **Responsible Party:** Economic Independence Division Director **Target Date:** 8/30/24

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EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	2. Refund due to County on contract expiration does not agree to general ledger
High	Thrive refunded the County $210,336 for program specific refunds upon contract expiration for unspent funds. Thrive refunded the County based on the remaining bank cash balances as of mid-November 2023 for the pertinent program accounts. However, the general ledger account balances totaled $229,644 as of October 31, 2023, a variance of $19,308, which is due to the County. Based on our analysis, it appears that Thrive did not take into account uncleared checks as of June 30, 2021 that were later voided after June 30, 2021 in their calculation of the amounts due to the County (voided uncleared amounts make up $18,329 of the $19,308 variance).
Recommendation	We recommend the County work with Thrive to confirm calculations and request payment of the additional amount due to the County.
Management's Action Plan	**Response:** The Department of Human Services will continue to work with RSM US LLP and the Department of Management and Finance to reconcile the amount to be refunded by Arlington Thrive. **Responsible Party:** Economic Independence Division's Administrative Officer **Target Date:** 8/30/24

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	3. Undocumented fund transfers between programs
Moderate	While the Contract included specific line-item programs for each budget amount, in reviewing Thrive's general ledger detail and bank account statements, we noted that Thrive moved County funds between the Carter-Jenkinson Fund, Daily Needs Fund, and Emergency Lodging Fund, as needed. Exhibit A, Section I of the Contract states that "In coordination with the Contractor, the County may shift funds between the programs / funds or implement new programs for identified community needs." As such, it appears that moving funding between the programs was allowable. Thrive indicated that the County approved the fund transfers in cases where one fund needed additional cash quickly in order to meet obligations for the County residents. In our discussions with the DHS, DHS stated that fund transfers between these funds were allowable and discussed on numerous occasions, and the borrowing fund was not required to "pay back" the loaning fund. However, supporting documentation of DHS' approval of these fund transfers was not always retained by Thrive or by DHS, nor were the transfers documented in the quarterly financial reports submitted to the County, as discussed in Observation 1.
Recommendation	We recommend that going forward, all fund transfers and/or policy decisions made are formally approved by the County, and that both the County and the Contractor retain supporting documentation of the approval. Additionally, fund transfers between programs should be properly recorded in any submitted periodic financial reports to track the movement of funds and increase transparency.
Management's Action Plan	**Response:** The Department of Human Services' Economic Independence Division will amend the contract with the new vendor to state that the County may reallocate money between funds at any time, with documented email approval from the Economic Independence Division Director or her designee. These emails and funds transfers will be tracked internally by the Economic Independence Division to ensure proper documentation of funds transfers when they occur. The Economic Independence Division will also ensure that reporting requirements include tracking the movement of funds, as described in Observation 1. **Responsible Party:** Economic Independence Division Director **Target Date:** 8/30/24

Executive Summary (Continued)

Detailed Observations (continued)

Observation	4. Inability to track County-funded administration costs
Moderate	Thrive comingles all administration funding and costs in one general ledger account and bank account, and, therefore, there is no way to agree specific expenses to specific funding sources, including those paid with County funding. This account does contain other funding sources, such as grant funds from entities other than the County. The use of separate accounts would have facilitated improved monitoring of administrative spending and compliance with certain contract terms. The contract did contain several requirements pertaining to administrative funds. However, due to the commingling of funds, it was necessary to perform a detailed analysis of the administrative expenses to ensure vendor compliance with contract terms.

For example, the contract contained a cap on administrative costs of no more than 10% of the contract value. Based on our detailed analysis, we concluded that the vendor spent 8.7% in the contract on administrative costs and therefore complied with contract terms.

In addition, the contract stated "*Program administration costs include, but are not limited to, rent, staff salaries for oversight and general management, and utilities. The Contractor must submit the proposed line items and amounts for each annual budget to the County Project Officer for review and approval.*" We reviewed the budget line-item categories included in the Contract that we understand were submitted by Thrive, and noted the following general categories (see table at right) were approved by the County as part of the $1,180,469 in administration funding provided. Approximately $900k of the administration budget is related to personnel costs, while the remaining $280k related to general administration and overhead, audit, and technology/software costs.

In discussing this issue with the DHS personnel, we understand that while the proposed budget line-items were presented to the County, as long as Thrive spent at least $1.18M in the approved administration categories listed in the Contract (rent, staff salaries for oversight and general management, and utilities), then this is acceptable to the County. As part of our testing, we confirmed that Thrive incurred costs in excess of the funding provided by the County, utilizing payroll details for the personnel titles, as well as general ledger details for non-personnel costs.

	FY2022	FY2023	Total Funding Provided
Administration / Personnel			
Administration and Overhead	$ -	$ 216,000	**$ 216,000**
Audit	29,000	-	**29,000**
Case Management Manager	-	42,500	**42,500**
Case Managers	35,000	136,876	**171,876**
Case Managers*	58,333	235,670	**294,003**
Cash Pilot Coach*	-	88,000	**88,000**
Childcare Case Manager	-	7,370	**7,370**
Computer for additional staff	2,000	-	**2,000**
Director of Programs & Operations	3,500	-	**3,500**
Executive Director	9,000	-	**9,000**
Finance/Program Assistant	26,000	-	**26,000**
Laptop, monitor, office supplies	1,500	-	**1,500**
Operations Manager	52,360	52,360	**104,720**
Program & Operations Manager	500	-	**500**
Program Assistant 2	12,000	-	**12,000**
Program Director	-	22,500	**22,500**
Program Manager	12,000	-	**12,000**
Programs Assistance	40,000	40,000	**80,000**
Software program updates	30,000	-	**30,000**
Temporary Staffing	28,000	-	**28,000**
Total	$ 339,193	$ 841,276	**$ 1,180,469**

**Cash Pilot Coach and portion of Case Managers that are not subject to 10% admin fee cap.*

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Recommendation	We recommend that going forward, Contract language around the use of administration funds is more clearly defined. Furthermore, if the County's Contract specifies approval for specific uses and amounts of administration funds, then the funding and associated costs should be segregated from other funds (not comingled), tracked, and reported as such.
Management's Action Plan	**Response:** The Economic Independence Division has already ensured that the new contracted vendor for this scope of work does not comingle funds and has separate accounts for each unique funding stream. The Economic Independence Division has agreed to pay its current vendor a 10% administrative fee. We will not reimburse anything else outside of the approved budget. **Responsible Party:** Economic Independence Division Director **Target Date:** 8/30/24

Background, Objectives and Approach

Background

Overview

Contract compliance encompasses all contractual agreements entered into by the County. Although certain aspects of the purchasing function are centralized within the Department of Management and Finance ("DMF"), and vendor selection is performed in conjunction with Purchasing, some of the high-risk areas like contract administration, compliance and monitoring are the responsibility of the individual departments / divisions / bureaus.

The County's third-party contracts include a right to audit clause, providing the County the right to review the Contractor's books, records and other documents related to the specific contract for a specified period of time.

Arlington Thrive, Inc.

The Arlington Thrive, Inc. (Thrive, Contractor) contract selected for this contract compliance audit was managed by a Project Officer in the Department of Human Services (DHS). Agreement No. 22-DHS-EP-8 (Contract), a third-party services contract, provides financial assistance to eligible Arlington County residents in accordance with various programs/funding streams, as detailed in the Contract. The Contract went into effect on July 1, 2021. There have been eighteen (18) amendments related to the Contract, with effective dates between August 19, 2021 and May 18, 2023, that revise certain terms, programs, budgets and expiration date of the Contract. The Contract expired as of October 31, 2023 and the County transitioned to a new provider for these services.

Under Section 32 of the Contract, the County has the right to audit up to the previous five years of Thrive's books and records. The audit period for this review is July 1, 2021 through October 31, 2023. The objective of this contract compliance review was to determine whether Arlington Thrive, Inc.'s (Thrive) processes and procedures around fund disbursements are in compliance with the terms and conditions of the Contract, as it relates to allowable costs under each program/funding stream, and the clerical accuracy of Thrive's quarterly financial reporting packages.

Programs and Funding Streams

During FY2022 and FY2023, the County provided over $10.7M in funding under the Contract. These funds provide emergency financial assistance to eligible County Residents through the following major programs/funding streams, as described in the Contract:

<u>Carter-Jenkinson Housing Assistance Fund</u>

Funds must be utilized for Arlington County residents who are in danger of becoming homeless. Assistance includes payments for rent, security deposits, mortgage assistance, utilities and other housing needs as determined. The Contractor must serve only Arlington County residents who have been screened and referred by the Clinical Coordination Program of the Department of Human Services (DHS) Economic Independence Division. The fund received over $8.8M during FY2022 and FY2023.

<u>Daily Needs Fund</u>

Funds must be utilized to provide assistance only to Arlington County residents in economic crisis who are referred by the County and other governmental and private social service agencies. This fund is limited to a maximum annual assistance amount per household to be determined annually by the County with input from Thrive. The fund received over $319k during FY2022 and FY2023.

BACKGROUND, OBJECTIVES AND APPROACH

Background (continued)

Emergency Lodging Fund

Funds must be utilized to provide payment for emergency short term lodging for Arlington County residents who have been screened and referred by the DHS Economic Independence Division, Community Assistance Bureau (CAB). The fund received over $66k during FY2022 and FY2023.

Permanent Supportive Housing Fund

Funds were awarded by the County on an as-needed basis to provide services to County residents in the Permanent Supportive Housing Program through the PSH Emergency Fund and Maintenance Reserve Fund and the Arlington Landlord Partnership Risk Reduction Fund. These funds totaled over $213k during FY2022 and FY2023.

Other Funding

The County provided other funding during FY2022 and FY2023 for specific needs in the County, including language assistance, trauma informed care and counseling, eviction prevention check processing compensation to people with lived experience of homelessness, and childcare. These funds totaled over $97k during FY2022 and FY2023.

Personnel / Admin Costs

Certain personnel and administration costs were also allowable under the Contract. An administration cap of up to ten percent (10%) was allowable under the Contract for the annual budget. Per the Contract, "*Program administration costs include, but are not limited to, rent, staff salaries for oversight and general management, and utilities. The Contractor must submit the proposed line items and amounts for each annual budget to the County Project Officer for review and approval.*" These funds totaled over $1.18M during FY2022 and FY2023.

BACKGROUND, OBJECTIVES AND APPROACH

Background (continued)

The below table is a summary of the funding provided by the County to Thrive for the above categories for FY2022 and FY2023:

Summary of funding provided by County to Thrive (FY2022 and FY2023)

	FY2022	FY2023	Total Funding Provided
Programs / Special Purposes			
Carter-Jenkinson Housing Assistance Fund	$ 2,345,374	$ 6,542,130	**$ 8,887,504**
The Daily Needs Fund	159,593	159,593	**319,186**
Emergency Lodging	33,277	33,277	**66,554**
Permanent Supportive Housing Emergency / Maintenance Fund	155,000	58,599	**213,599**
Other Funding	30,200	67,332	**97,532**
Subtotal	2,723,444	6,860,931	**9,584,375**
Administration / Personnel			
Cash Pilot Coach / Case Managers *(not included in 10% cap)*	58,333	323,670	**382,003**
Administration and Personnel *(subject to 10% cap)*	280,860	517,606	**798,466**
Total Administration / Personnel	339,193	841,276	**1,180,469**
Total Funding from County	**$ 3,062,637**	**$ 7,702,207**	**$ 10,764,844**

Match Requirement

The Contract required that Thrive provide matching funds for the Carter-Jenkinson and Daily Fund in the amount of $232,315 for each of FY2022 and FY2023, as indicated in the annual budget.

Books and Records

Thrive utilizes QuickBooks general ledger software and Gusto software for timekeeping and payroll. Thrive outsources its accounting to a third-party CPA firm.

During the audit period, Thrive maintained various bank accounts at John Marshall Bank (through June 2023) and Capital One (from July 2023 forward) for receiving and disbursing funds related to each of the funding streams. To receive funding from the County, Thrive submitted invoices to the County for the funding amounts in the Contract. The County wired payments to Thrive's savings account, and Thrive would then disburse the funds to the appropriate program bank accounts.

Separate bank accounts and general ledger accounts were utilized for the Carter-Jenkinson Fund, Daily Needs Fund, Emergency Lodging Fund, Permanent Supportive Housing Emergency Fund, Permanent Supportive Housing Maintenance Fund, and Childcare, making it possible to separately track the receipt of funding and disbursements for each program the County funded. However, the administration, overhead, and personnel-related funds and disbursements were

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BACKGROUND, OBJECTIVES AND APPROACH

Background (continued)

comingled in a single bank account and general ledger account; as such, we are not able to track how Thrive spent the County's portion of funding related to administration costs to specific transactions.

Requests for funding are created by social workers in Thrive's Apricot software system, at which time the social worker validates the person's request. Pertinent information regarding the client name, vendor information, summary of the need for financial assistance, and specific program for which the request is being made under are entered. Requests are either denied (for missing or inadequate information) or approved. Once approved, Thrive made disbursements through physical checks, wire transfers, and/or an online bill payment system (bill.com) during the audit period. If checks were not cashed timely, Thrive stopped payment on each check with the bank, and created journal entries to credit back the unused funds for the pertinent program.

Contract Expiration

The County's Contract with Thrive expired as of October 31, 2023 and transitioned the services to another vendor. Thrive refunded $233,819 to the County ($210,336 for program specific refunds and $23,483 for personnel related refunds) upon contract expiration for funds leftover in various programs, as detailed in the table at the right. According to Thrive, Thrive calculated the refund amounts due to the County based on the remaining bank balances for the pertinent program accounts.

	Amount returned to County
Carter-Jenkinson	$ 30,970
Daily Needs	67,598
Emergency Lodging	5,150
Local Childcare	39,321
Nestle Childcare	18,997
PSH Emergency	34,423
PSH Maintenance	13,878
Program refunds	**210,336**
Case Management	20,957
Cash Pilot	2,526
Personnel refunds	**23,483**
Total refunds paid	**$ 233,819**

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach

Objectives

Contract compliance encompasses all contractual agreements for the purchase of goods and services including, but not limited to, vendor agreements. The objective of this contract compliance review was to determine whether Thrive's processes and procedures around fund disbursements are in compliance with the terms and conditions of the Contract, as it relates to allowable costs under each program/funding stream, and the clerical accuracy of Thrive's quarterly financial reporting packages.

The scope of this contract compliance review encompassed one (1) contract from the Department of Human Services Agreement No. 22-DHS-EP-8 with Arlington Thrive, Inc. (Thrive, Contractor). The audit period was July 1, 2021 through October 31, 2023.

Approach

Our approach to the audit execution consisted of the following phases:

Planning

The first phase of this audit consisted primarily of inquiry and walkthroughs, to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. The following was performed as a part of this phase:

- Reviewed the pertinent Contract and any relative correspondence provided by the County.
- Initiated a planning call with the appropriate County personnel to gain an understanding of the Contract, the County's relationship with the Contractor, other County funding sources related to Arlington Thrive outside of the Contract, and any other relevant matters concerning the audit. As part of this process, we obtained certain payment and budget data/information, and relevant correspondence with Thrive from the County.
- Conducted a walkthrough call with the appropriate Contractor personnel to gain an understanding of all funding streams the Contractor received from, the accounting systems utilized to manage each program, how the contractor made payments under each program, including how payments were calculated, tracked and/or allocated to each program/funding stream, and the report compilation process.
- Obtained preliminary data for use in the audit, including:
    - Chart of accounts, identifying the revenue/expense accounts specifically related to the Contract;
    - Population of general ledger transactions for the audit period, to include all revenues received from all sources, and all disbursements made under all of the Contractor's programs;
    - All quarterly financial reports submitted to the County during the audit period, including any workbooks, calculations, or other documentation used by the Contractor to create such quarterly reports;
    - And operational procedures in place relevant to accounting and finance, accounts receivable and payables.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

Fieldwork

The purpose of this phase was to test compliance with funding provisions in the Contract. Our fieldwork testing utilized sampling and other audit techniques to meet our audit objectives outlined above. Procedures included, but were not limited to:

- Reviewed all policies and procedures provided by the Contractor to determine whether the Contractor's processes were consistent with the terms and conditions of the Contract. We noted that Thrive does not have any policies or procedures related specifically to County-funded programs.
- Reviewed differing sources of revenue and evaluated accurate allocation to the correct funds, including verifying that Thrive deposited the required matching funds into the Carter-Jenkinson and Daily Needs Funds. **See Observation 3.**
- Performed data analytics related to the costs / disbursement for each program to assess whether Thrive exceeded dollar threshold limits based on program guidelines.
- On a sample basis, tested that the costs/invoices included in the financial reports are supported by source documents, as follows:

Program/Fund Costs

We judgmentally selected 25 disbursement transactions and:

- reviewed supporting documentation for payments on behalf of residents, including, funding requests detailed in Thrive's Apricot system, including caseworker approvals, proof of payment to the appropriate entity (i.e., landlord), Arlington Thrive bank account detail statements for the audit period and prepared bank reconciliations;
- reviewed check / disbursement issuance details and agreed to prepared bank reconciliations to evaluate whether uncleared checks were reimbursed to the correct program, as appropriate; and
- evaluated whether costs were charged to the appropriate general ledger account and were properly included or excluded from the quarterly financial reports in the proper period. As noted in Observation 1, the quarterly financial reports were inaccurate.

We noted that the disbursements reviewed as part of this testing were related to the applicable program's allowable expenses. We also reviewed the general ledger detail for each program to evaluate whether the payees appear to be appropriate for each program (i.e., landlords, utility payments).

Personnel / Administration Costs

We reviewed the general ledger detail for administration costs incurred during the audit period, and:

- evaluated whether administrative costs were approved by the County, including approvals of any reallocations, if applicable, and/or allowable under the terms and conditions of the Contract; **(See Observation 4)**

  An administration cap of up to ten percent (10%) was allowable under the Contract for certain portions of the budget. A total of $798,466 of the total administration costs are subject to the 10% administration cap, while $382,003 are not subject to the administration cap (cash pilot coach

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

program and a portion of the case managers costs) based on the annual budgets. We noted that Thrive spent $9.2M on program costs (net of amounts refunded to the County at contract expiration) during the audit period, making the total administration costs 8.7% of program costs (calculated as $798k / $9.2M).

We noted that of the $1.18M total administration budget, approximately $900k is related to personnel costs, while the remaining $280k related to general administration and overhead, audit, and technology/software costs. Because Thrive comingles all administration funding and costs in one general ledger account and bank account, there is no way to track the funding the County provided to specific costs dollar-for-dollar. Instead, we obtained payroll details for the personnel titles listed in the budgets and evaluated whether the total amount paid to the applicable personnel during the audit period was greater than the funding provided by the County. For the remaining $280k administration budget, we reviewed the general ledger detail and noted that Thrive incurred administration costs for items such as rent, utilities, and other staff salaries for oversight and general management.

- reviewed personnel cost allocations to evaluate whether costs were charged to programs in compliance with the Contract;
- evaluated whether costs were charged to the appropriate general ledger account and were properly included or excluded from the quarterly financial reports in the proper period. As noted in Observation 1, the quarterly financial reports were inaccurate.

- Reviewed general ledger detailed reports, workbooks, calculations, or other documentation used by the Contractor to consolidate and calculate the quarterly financial reports. As part of this procedure, we clerically tested a sample of workbooks, calculations and/or formulas utilized in the Contractor's documentation to evaluate the completeness and accuracy of the quarterly financial reports, including approvals of any budget reallocations. **(See Observation 1)**
- Evaluated whether the refund amounts Thrive paid to the County upon contract expiration appear to be reasonable.

  To verify the accuracy of the refund amount, we calculated the expected cash balance as of the contract expiration utilizing 1) the beginning cash balance of each program's bank account as of July 1, 2021, 2) uncleared (outstanding) checks as of June 30, 2021, 3) uncleared checks as of June 30, 2021 that were later voided after June 30, 2021, and 4) the net general ledger activity for each program for the audit period.

  Using this methodology, the refund due to the County for program specific cash balances should have been $229,644 (as compared to the $210,336 calculated by Thrive); as such, it appears that Thrive has under-refunded the County by $19,308. **(See Observation 2)**

  It appears that Thrive did not take into account uncleared checks as of June 30, 2021 that were later voided after June 30, 2021, as those amounts make up $18,329 of the $19,308 due to the County.

Reporting

At the conclusion of this audit, we vetted the facts of this contract compliance audit with DHS. The draft report was submitted to DMF and DHS for review. An exit meeting was held with DMF and DHS to formally review and discuss the draft report and modify accordingly.

Risk Ratings

Observation Risk Rating Definitions	
Rating	**Explanation**
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success / achievement of goals and internal control structure.
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success / achievement of goals and improve its internal control structure. Action should be in the near term.
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success / achievement of goals and improve its internal control structure. Action should be taken immediately.

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