



**Palm Beach County
OFFICE OF INSPECTOR GENERAL**

**Management Review
Case Number: 2010-0007**

**Sheryl G. Steckler
Inspector General**

INTRODUCTION

Sections 2-216—2-221, Palm Beach County Municipal Code, directs the Palm Beach County Criminal Justice Commission (CJC) to enter into contracts and hire personnel as required to pursue the objectives of the CJC (subject to approval by the Board of County Commissioners) and to take all acts reasonably required by the CJC in the exercise of the authority set forth above and the pursuit of the CJC's objectives. Through the CJC contract #R-2008-1566, between the CJC and PRIDE Integrated Services (PRIDE), covering the period of December 6, 2008 through December 5, 2011, PRIDE serves as the sole provider of Palm Beach County's probation services.

The Office of Inspector General (OIG) received a request from Barbara Cheives, CJC Chair, to review allegations of contract violations, destruction of public records, and funds mishandling. This request was initiated based on former PRIDE employee Deborah Anderson's allegations that PRIDE was mishandling restitution funds and CJC's report, dated June 14, 2010, in response to Anderson's allegations.

Based on the information provided by CJC Chair Cheives, the Office of Inspector General initiated a management review in August 2010 to determine PRIDE's compliance with the contract and review CJC's oversight of the contract.

ISSUES AND FINDINGS

ISSUE 1:

Violation of Contract Terms: PRIDE did not mail crime victims' restitution checks within the fourteen (14) day contract requirement, a breach of contract.

GOVERNING DIRECTIVE:

Contract #R-2008-1566

Scope of Work, Section 6.h), (i) and (iii)

6.h) Restitution, Fines, and Court Costs

- i. PRIDE shall provide the highest priority to assessment, collection, and disbursement of restitution to victims of crimes and shall monitor payments of court costs, fines, and cost of supervision fees.
- iii. Make all restitution payments within fourteen (14) days of receipt and provide the Clerk of the Court and the County with a quarterly report

containing the offender's name, case number, the victim's identification, total restitution ordered, amount paid to date, and balance left to be paid by the offender.

FINDING:

Beginning around August 2008, John Potter, PRIDE's Chief Financial Officer (CFO), with the knowledge of Maureen Brickous, PRIDE's Chief Executive Officer (CEO), initiated transfers to and from various contract accounts associated with Palm Beach County, FL; Sarasota County, FL; and Chatham County, GA in part to cover corporate operating expense shortfalls.

Through interviews of CEO Brickous, CFO Potter, Deborah Anderson (HR/Financial Manager), and Mary Ann Castiglione (Accounts Payable Clerk), PRIDE's financial difficulties in meeting their operational expenses were verified. PRIDE's quarterly Board of Directors' Meeting minutes in 2008 also identified financial difficulties in the various county programs under contract. Further, PRIDE's quarterly Board of Directors' Meeting minutes in February 2009 highlighted internal cash flow problems and the fact that CFO Potter transferred funds temporarily from PRIDE's separate escrow accounts into PRIDE's operating account. This raised a concern with Board members, thus their Corporate Counsel, Joseph Considine, was asked to review it. At the following Board meeting in April 2009, Mr. Considine stated "that the issue could cause contractual problems, although the establishment of separate accounts was voluntary." The Board agreed that due to potential contract issues, the practice should stop. CFO Potter advised the Board the transfers had already stopped, except for transfers from operating account to the restitution accounts.

As a result of deficiencies in the operational funds, CFO Potter made transfers from mid-2008 through March 2010 from the Palm Beach County restitution account to PRIDE's operational account, thus causing shortages in the restitution account and delays in victims' payments. PRIDE's poor financial condition led to restitution checks being knowingly "held" in excess of 14 days, a violation of the service contract. CEO Brickous and CFO Potter each admitted in sworn testimony that these transfers took place on a regular basis.

An OIG review of PRIDE's accounting system (Peachtree) documentation disclosed that the system captured the dates that restitution checks were prepared or cut. The prepared or check cut dates were identified in the check register reports under the heading of "Date." The system, at the time, did not document the actual mailing dates. The data provided by PRIDE was inaccurate and gave the perception that restitution checks were sent to crime victims in accordance with the contract. In fact, a large majority of restitution checks were mailed outside of the 14 day turnaround requirement at the direction of CFO Potter to meet PRIDE's financial obligations.

FOOTNOTE:

Escrow Account: checking accounts established for each contract; however, originally Sarasota account only, includes restitution. Escrow and restitution used interchangeably by employees.

Operational Account: PRIDE's central checking account for operational expenditures—salaries, utilities, etc.

Restitution Account: Checking account established for Palm Beach for the collection and distribution of restitution money.

In sworn testimony, CFO Potter admitted that, when operating funds became low, transfers from the restitution accounts were necessary to meet operating expenses; thus, resulting in checks being "held" from mailing. CEO Brickous and CFO Potter also admitted under sworn testimony that they knew PRIDE did not meet its contractual obligation in regards to the 14 day turnaround requirement for restitution payments due to the holding of the checks.

Following the receipt of the complaint, a review of PRIDE records by the CJC from October 2009 through March 31, 2010 (where the actual mailing dates were manually documented), showed only 45% of the restitution checks as being mailed within the 14 day contract turnaround requirement.

The contract also required an annual financial report of PRIDE by an independent auditor. In both the 2008 and 2009, the independent auditor noted in each report, that in his opinion, there was an on-going concern as to PRIDE's ability to continue. The 2008 and 2009 audits also reflected substantial operating losses in both years as well as deficient net assets of \$324,000 and \$291,000. A review of the 2006 and 2007 annual financial audits also reflected deficient net assets of \$133,000 and \$167,000.

In December 2002, an independent audit of PRIDE directed by the CJC, covering the contract period from 1998-2001, identified "PRIDE's practice of transferring funds between the probation contract account and its corporate general account has resulted in a net transfer from the probation contract account of over \$300,000 for the years under audit. This practice contributed to the current need to increase fees to cover probation contract costs." This practice of transferring these funds (probation fees to the general operating account) was also noted in a previous audit for the years 1994-1997. PRIDE told the independent auditor during the 2002 audit, that the "bulk of the transfers were used to fund programs that were incurring deficits." The independent auditor's recommendations included three options for oversight of PRIDE's accounting for revenues and expenses:

1. Require PRIDE to maintain probation service program revenue and expense separate from their corporate general accounts, including maintaining any surpluses earned in the probation service accounts.
2. Allow PRIDE to transfer amounts to/from the probation service program and the corporate general account up to a prescribed maximum for any given year to cover short-term deficits in either account grouping.
3. Permit PRIDE to continue to their current practice with the proviso that the CJC review and approve all such transfers prior to being made.

Ultimately, in early 2003, the CJC Chairman stated that the options were put forth before the PAB and CJC, and that both entities agreed that no corrective action was necessary. Management comments also related that the CJC Chairman stated the County Attorney's Office believed that there was nothing in the existing contract that prohibited the transfer of funds and that any changes should await a future contract, if desired. The County Attorney's Office also expressed a concern in the management review according to the CJC Chairman that Pride should not be held to a level of accountability not required of other vendors. In their summary, the CJC and PAB concluded no corrective action was necessary, but believed that any contract renewal

with PRIDE should incorporate the accounting principle of matching revenues and expenses, and maintaining accountability for each program.

It was noted, during the OIG management review, PRIDE subsequently included check mailing dates into their reports.

ISSUE 2:

The Criminal Justice Commission (CJC) did not provide effective oversight of PRIDE's contract to ensure contract compliance and understanding of the deliverables' data.

GOVERNING DIRECTIVE:

Contract #R-2008-1566

Article 19 – Access and Audits

The COUNTY shall have access to such books, records, and documents as required in this section for the purposes of inspection or audit during normal business hours, at PRIDE's place of business.

Exhibit A – Scope of Work

1. Introduction

1.e. County shall review PRIDEs caseload annually to determine whether adjustments to coverage are required to meet the needs of offenders residing in those areas (WPB, DelRay, Belle Glade.)

6. Supervision Requirements

6.h.ii. Each month transfer all revenues collected for fines and court costs, including interest to the Clerk of Courts. PRIDE shall provide the county with a copy of the report.

6.h.iii. Make all restitution payments within fourteen (14) days of receipt and provide the Clerk of court and county with a quarterly report containing . . .

6.h.iv. Provide a quarterly report of all restitution payments made, where Victim can't be located for disbursements.

11. Probation Advisory Board

A. Monitor and Oversee Contract

B. Recommend whether or not to continue, renegotiate, or bid new contract

12. Reporting requirements (for PRIDE)

12.a. Quarterly reports to Chief Judge, PAB Board Chair and supporting staff

- 12.b. Provide reports to Judge as required by FS 948.15
- 12.c. Operational, revenue & statistical reports as required by County, Court, and FSS
- 12.e. Annual financial report by independent auditor to Chief Judge and County

FINDING

The Probation Advisory Board (PAB) was charged with contract monitoring and oversight in accordance with the contract; however, this responsibility appeared to be delegated to the CJC. The PAB never questioned the CJC as to how oversight was performed, but the PAB directed the CJC to conduct an annual monitoring study of the Misdemeanor Probation Services for Palm Beach County. Two studies were found for the past five years: a two-year study (October 1, 2005 – September 30, 2007, dated April 30, 2008), and a one year study (October 1, 2007 - September 30, 2008, dated August 31, 2009.) In the 2005-2007 study, the CJC found that PRIDE was in general compliance with the requirements outlined in the contract; quarterly reports concerning restitution payments were in contract compliance; however, the CJC was unable to determine what proportion of restitution payments were in fact sent out within 14 days of receipt. It was recommended that quarterly reports be revised to include information concerning the number of days between the receipt of payment and sending the restitution to the victim as well as the County undertaking an independent financial audit of PRIDE for the past few years. The second study found PRIDE in general compliance with the provisions of the contract. PRIDE completed the required annual financial report which was submitted to PAB and the CJC. PRIDE's records on restitution payments during the period presented to the CJC showed PRIDE made 98% of the restitution payments within 14 days of receipt.

The OIG determined there were no documented procedures in place to perform contract oversight. In sworn testimony, Michael L. Rodriguez, CJC Executive Director, admitted there was no contract monitoring or service evaluation in place to test PRIDE's deliverables, such as: compliance with the 14 day turnaround for restitution payments, or the undelivered restitution being returned and sent to the Florida Crimes Compensation Trust Fund. The CJC received various reports from PRIDE under the reporting requirements of the contract, but did not perform any validation to determine if the reported data was accurate.

The CJC became aware in March 2010 of PRIDE transferring monies between restitution accounts in order to meet operational expenses. The CJC was also aware of the independent Certified Public Accountant's annual financial reports for 2008 and 2009, which questioned PRIDE's ability to continue as a "going concern" as well as the previous years' annual reports (2006 and 2007) showing deficient assets.

Mr. Rodriguez confirmed that CJC oversight was minimal throughout the contract due to inexperienced staff with contract oversight knowledge as well as the PAB and the CJC not having experienced financial persons on their staff or board to understand the financial reports provided by the independent auditor or CFO Potter's quarterly financial reports. In sworn testimony, Mr. Rodriguez characterized CJC oversight as "lacking".

ISSUE 3:

Destruction of Records: Accounts Payable Clerk, Mary Ann Castiglione, at the direction of HR/Financial Manager Deborah Anderson, destroyed “check registers” used to track actual dates that checks were mailed, a breach of contract.

GOVERNING DIRECTIVE:

Contract #R-2008-1566

Article 19 – Access and Audits

PRIDE shall maintain adequate records to justify all charges, expenses, and costs incurred in estimating and performing the work for at least three (3) years after completion or termination of this Contract. The COUNTY shall have access to such books, records, and documents as required in this section for the purposes of inspection or audit during normal business hours, at PRIDE’s place of business.

FINDING:

According to Ms. Castiglione, CFO Potter routinely directed her to delay mailing restitution checks so that PRIDE’s operational bills were paid on time. After signing the restitution checks, CFO Potter affixed notes to the checks to indicate on what date he wanted the checks mailed. Since the check registers did not specify the actual mailing dates of the checks, Ms. Castiglione developed her own manual tracking system in the event she was queried as to when a particular check was mailed. Ms. Castiglione notated the mailing dates of the checks in the margin of the printed electronic check register, and kept these check registers for an unspecified period of time until they became too voluminous for her to store at her desk. When this occurred, she queried Ms. Anderson as to whether she should keep them. Ms. Anderson told Ms. Castiglione to shred them, but to keep the most current registers. (This was verified by both parties in their interviews.) These documents were Ms. Castiglione’s personal method for tracking the check mail dates and not PRIDE’s formal policy or procedures for record keeping. Nonetheless, these documents contained information that, at the time, was not being reported correctly by PRIDE, and was the only source of data for when checks were actually mailed.

ISSUE 4:

The CJC contract language is not specific for accountability of delivery of service and oversight.

GOVERNING DIRECTIVE:

Palm Beach County Policy and Procedure Memorandum # CW-F-049, effective June 16, 2010 - Contract Development and Contract Responsibility to include Request for Proposal Template for Professional Services.

FINDING:

The CJC staff prepared and management reviewed the initial service contract, which was subsequently won by Pride in 1993, following a competitive process. Subsequent awards of the contract through 2008 were not competitively procured throughout the years. The contract was silent in regards to the handling of restitution funds and the establishment of separate accounts, thus allowing for the co-mingling of funds from various accounts. Although there were specific deliverables required from PRIDE, there was minimal oversight of the contract requirements and deliverables. Furthermore, there was no contract language as to how the CJC would evaluate the effectiveness of the program.

During the management review, the Inspector General's office learned of similar issues with PRIDE Integrated Services on their Sarasota County, FL contract for similar services. According to an Interoffice Memorandum, dated September 1, 2010, by Jeanette L. Phillips, CPA, Director of Clerk Finance and Board Services to Karen E. Rushing, Clerk of the Circuit Court and County Comptroller, Sarasota County, the following significant observations were identified: deficient net assets and inability to continue in existence, timeliness of fine and court cost payments, timeliness of restitution funds, unauthorized use of escrow account (transferring of funds), and management oversight.

INSPECTOR GENERAL'S CORRECTIVE ACTION RECOMMENDATIONS

The following is recommended:

1. Develop a new Request for Proposal to include detailed requirements and deliverables as well as develop CJC oversight criteria to monitor the effectiveness of the contract.
2. Compete the contract under fair and open competition.
3. Establish contract oversight procedures. These procedures should include the identification of someone with financial and accounting expertise, as well as, someone with the knowledge and expertise in the contracted services area, so that appropriate levels of quality assurance and contract compliance oversight can be achieved.

MANAGEMENT COMMENTS

CJC's Management concurred with the recommendations and will be moving forward in developing a RFP and awarding it under a competitive process. Secondly, CJC will establish contract oversight with a staff person with the appropriate expertise. CJC's response is attached.

PRIDE's response to this report is also attached.

*This management review was conducted in accordance with the
ASSOCIATION OF INSPECTORS GENERAL
Principles & Quality Standards for Investigations.*



Criminal Justice Commission
301 North Olive Avenue, Suite 1001
West Palm Beach, FL 33401-4705
(561) 355-4943
FAX: (561) 355-4941
www.pbcgov.com/cjc



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County Administrator
Robert Weisman

December 8, 2010


Mr. Alan Russell
Investigations' Section
PO Box 16508
West Palm Beach, FL, 33416

Dear Mr. Russell:

The Criminal Justice Commission (CJC) would like to thank you for your report concerning PRIDE Integrated Services and their restitution account. The CJC is pleased that the Office of the Inspector General (OIG) corroborated CJC staff findings regarding the mishandling of the restitution account by PRIDE Integrated Services.

In conjunction with the BCC, CJC and PAB we will move forward with your recommendations regarding the development of an RFP and a competitive bid process. Secondly we will establish contract oversight with a staff person with the appropriate expertise.

Respectfully,


Barbara Cheives, Chair
Criminal Justice Commission

BC/mlr

cc: Vincent Bonvento, Assistant County Administrator
Sheryl Steckler, Inspector General
Maureen Brickous, CEO, Pride Integrated Services

*"An Equal Opportunity
Affirmative Action Employer"*

Pride Integrated Services, Inc.

1310 N. Congress Avenue, Suite 200 • West Palm Beach, FL 33409 (561) 684-2370 • Fax (561) 684-0069

December 13, 2010

Mr. Alan Russell
Office of the Inspector General
Investigations Section
2633 Vista Pkwy
West Palm Beach, Florida 33411

Re: Response from Pride Integrated Services, Inc

Dear Mr. Russell,

I am in receipt of your report dated November 23rd, 2010. There are a few clarifications I would like to make regarding the report.

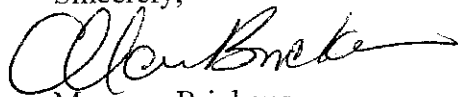
Please be advised that Pride self initiated the discontinuation of transfers from the restitution accounts in January of 2010. This occurred prior to Pride receiving a letter of inquiry regarding restitution funds from CJC staff on March 31, 2010. Any transfers from the restitution account to the operating account after January would have been for errant deposits made by Pride staff. The transfers were to correct the error.

In addition, the report indicates that transfers were made from Pride's Chatham County, GA account to cover corporate expense shortfalls. Please be advised that Pride has one account in Chatham County where restitution funds and Prides cost of supervision revenues are deposited. Pride's CFO routinely transfers the cost of supervision revenues into the operating account.

The report also references the independent audit that was conducted in December of 2002 at the request of the CJC. This notation is to clarify that Pride was not depositing restitution funds into Pride accounts at that time. Pride began depositing restitution funds in January of 2004. The funds discussed were Pride's cost of supervision revenues.

Please be advised that Pride's Quality Assurance Coordinator for Probation Services requested a report from the HR/Financial Coordinator that would document the disbursement dates for restitution. This was the first time this report was requested by CJC staff. It was the QA Coordinator's belief that this report accurately documented restitution disbursement.

Sincerely,



Maureen Brickous
CEO

