



CITY OF PHILADELPHIA

Office of Inspector General

The Curtis Center
601 Walnut Street, Suite 300 East
Philadelphia, PA19106
Telephone: (215) 686-1770
Fax: (215) 686-1757

Amy L. Kurland, Esquire
Inspector General

EXECUTIVE SUMMARY OF OIG INVESTIGATION OF PHS AND JHK

The City of Philadelphia Office of Inspector General (OIG) investigated an allegation that Prison Health Services, Inc. (PHS)¹ used a pass-through woman owned business entity (WBE) to circumvent the City's minority, women, and disabled business entities (M/W/DSBE) requirements outlined in Mayoral Executive Order 02-05.

This investigation found that PHS contravened the City's anti-discrimination policies by subcontracting with an Indiana based first-aid supplier, JHK Inc., d.b.a. American Safety & First Aid (JHK), a pass-through WBE that was not approved by the City to provide the services that it was engaged to perform, and in fact provided no commercially acceptable function. PHS also submitted paperwork that inflated JHK's role to represent compliance with the City's anti-discrimination policies.

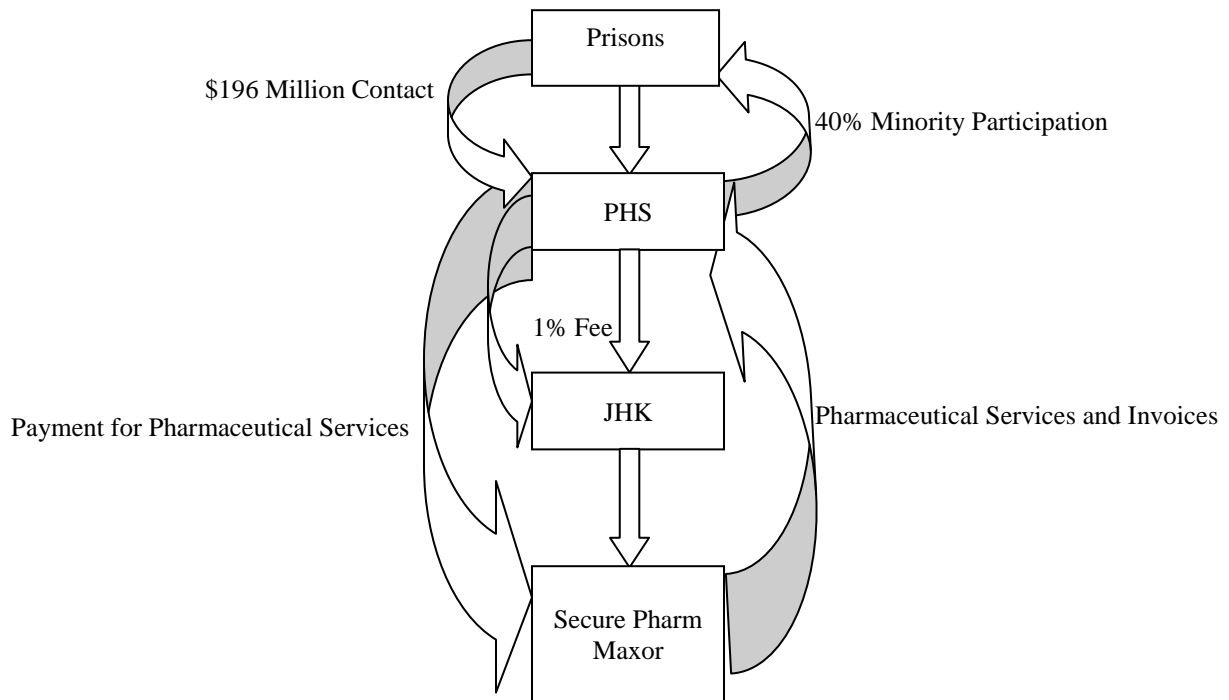
Since 1995, PHS has held a contract to provide physical healthcare services, including dental, hospital, laboratory, optometry, pharmacy, and specialist services, to inmates at correctional facilities throughout the City of Philadelphia in the Philadelphia Prisons Systems (PPS). As part of this contract, PHS was required to meet M/W/DSBE participation ranges between ten and fifteen percent for women owned business entities (WBE). The contract was originally valued at \$35.9 million and has since been increased through yearly amendments, reaching a total current value of \$196 million.

If PHS could not meet the M/W/DSBE participation ranges after making a showing to the City of a good faith effort, the City could grant a reduction in participation ranges. From May 2006 through March 2012, PHS never made a good faith showing or applied for a participation reduction. Instead, PHS attempted to meet the M/W/DSBE participation ranges by using a pass-through. In May 2006, PHS finalized a subcontract with JHK to provide pharmaceutical services as part of the PPS contract. However, JHK personnel admitted that JHK did not provide pharmaceutical services. Instead, JHK received money from PHS solely for the use of its name on City documentation so that PHS could secure work at the PPS. The owner of JHK, Jamie

¹ In 2011, PHS changed its legal name to Corizon Health, Inc.

Kovacs Burks, described this arrangement as a “great thing for her company.” In exchange for the use of its name, PHS paid JHK 1% of the value of pharmaceutical services under the contract. PHS passed this 1% cost of the use of JHK’s name to the City through monthly invoices that PHS submitted to the City, resulting in a loss to the City of over \$400,000.

The OIG investigation found that Secure Pharmacy Plus, LLC (Secure Pharmacy), a Tennessee based entity sharing the same parent corporation as PHS, subcontracted with JHK and provided pharmaceutical services to the PPS until April 30, 2007. JHK personnel admitted that they knew Secure Pharmacy was providing the pharmaceutical services to PPS. On April 30, 2007, Texas based Maxor National Pharmacy Services Corporation (Maxor) purchased Secure Pharmacy from PHS’s parent corporation and entered into a long-term pharmacy services agreement whereby Maxor provided pharmaceuticals and medical supplies to PHS. The OIG investigation found no evidence that Maxor knew about the pass-through arrangement between PHS and JHK or what services JHK provided for PHS. Meanwhile, JHK performed no commercially acceptable function as required by the City’s anti-discrimination policies. The following diagram describes the pass-through arrangement between PHS, JHK, Secure Pharmacy, and Maxor.



The OIG investigation further found that, from 2007 to 2011, PHS submitted provider agreements, monthly MBE listings, Solicitation for Participation and Commitment Forms, and correspondence to the City with incorrect information as to JHK’s role. The documents represented that PHS contracted with JHK and paid JHK approximately 40% of the total contract amount for its services. However, from September 2008 through August 2011, PHS’s required monthly invoices revealed that PHS never paid JHK 40% of the total contract amount. PHS’s general ledgers reflecting money allocated by PHS each month demonstrate that from October 2007 to December 2011, JHK did not receive the 40% that PHS represented on the documentation provided to the City. Instead, JHK received a check each month from PHS for

less than 1% of the contract price for services separately provided by Maxor simply for the use of its name on City contracting documents. Moreover, the \$206,896 PHS paid JHK between September 2008 and August 2011 is far less than the \$23,739,525.13, which PHS certified to the City on its monthly MBE reports submitted with its monthly invoices as money directly allocated to PHS's M/W/DSBEs for that period.

PHS took the position that it fully disclosed and received approval of its pass-through arrangement with JHK from the City because it provided a copy of its proposed contract with JHK and JHK's proposed contract with Secure Pharmacy to the PPS employee who oversaw the City's contract with PHS. PHS believed that it subsequently received approval from that individual for the pass-through arrangement. As a result, PHS asserted that its relationship with Secure Pharmacy and Maxor was not hidden from the City and it was no secret that Secure Pharmacy and Maxor were providing services to PHS with JHK in the middle, having little to no role. However, the OIG investigation established that PHS did not fully disclose to the City its pass-through arrangement with JHK. While some City employees in PPS knew of the pass-through arrangement and thought a pass-through satisfied the City's anti-discrimination policies, there is no evidence that anyone at the Law Department or the Minority Business Enterprise Council (MBEC), now the Office of Economic Opportunity (OEO), ever knew about or approved the arrangement. Neither the attorney who reviewed and approved PHS's provider agreements, nor the OEO employee who received and approved PHS's M/W/DSBE compliance based upon PHS's 2008 incorrect correspondence and Solicitation for Participation and Commitment Forms knew about or approved the pass-through arrangement. OEO is the only City department that can approve compliance with the City's anti-discrimination policies and under Executive Order 02-05 OEO must approve in writing all changes of a contractor's M/W/DSBE participation.

As a result of this investigation, the OIG has recommended that JHK be removed from the City of Philadelphia's Office of Economic Opportunity Registry of M/W/DSBEs. The OIG has also recommended that JHK and JHK's owner, Jamie Kovacs Burks, be debarred from participation in any City contract for two years.

Also as a result of this investigation, the OIG initially recommended that PHS and PHS personnel be debarred from participation in any City contract for 2 years. However, PHS has worked cooperatively with the OIG on this matter and made good-faith efforts to comply with the City's policies relating to M/W/DSBE participation, including replacing JHK with another certified WBE engaged in the provision of pharmaceutical services. PHS has entered into a no-fault settlement agreement with the City. In sum, the settlement agreement provides that PHS will pay \$1.85 million to the City and will incorporate new internal policies to ensure that it complies with the City's Anti-Discrimination Policies on future contracts with the City and/or City-related agencies.