# COUNTY OF LOS ANGELES
## DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

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December 6, 2007

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **LOS ANGELES CHILD GUIDANCE CLINIC CONTRACT COMPLIANCE REVIEW – A DEPARTMENT OF MENTAL HEALTH SERVICE PROVIDER**

We have completed a contract compliance review of Los Angeles Child Guidance Clinic (LACGC or Agency), a Department of Mental Health (DMH) service provider.

## Background

DMH contracts with LACGC, a private non-profit community-based organization which provides services to clients in Service Planning Areas 4 and 6. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. The Agency's headquarters is located in the Second District.

Our review focused on approved Medi-Cal billings. DMH paid LACGC a provisional rate between $1.85 and $4.42 per minute of staff time ($111 to $265.20 per hour) for services. However, LACGC is reimbursed for their actual costs reported at year end. LACGC's contract was for approximately $12.3 million for Fiscal Year (FY) 2006-07.

## Purpose/Methodology

The purpose of the review was to determine whether LACGC complied with its contract terms and appropriately accounted for and spent DMH funds providing the services

outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a selected number of the Agency's staff and clients.

## Results of Review

LACGC provided the services outlined in the County contract. The Agency used qualified staff to perform the services billed and the clients stated that the services they received from the Agency met their expectations. In addition, the Agency completed Assessments and Progress Notes in compliance with the County contract. However, the Agency did not always comply with all the contract provisions. Specifically:

- The Agency did not complete Client Care Plans for five (14%) of the 26 clients sampled. The Client Care Plans did not contain goals and planned interventions for each type of treatment provided.

- LACGC's Cost Report submitted to DMH for FY 2005-06 included $493,733 in non-DMH costs. Agency management explained that this was a clerical error identified when we began our review and that they have corrected and resubmitted a new Cost Report to DMH.

- LACGC needs to strengthen their internal controls over expenditures by ensuring that a three-way match is performed of the requisition, original invoice and receiving documents before paying for goods/services.

- The Agency allocated employee benefit costs to the DMH program for staff positions that received little or no employee benefits (i.e., contractors and temporary employees). As a result, the Agency overbilled $62,240 to DMH. In May 2007, LACGC submitted a revised Cost Report to DMH that excluded the $62,240.

- The Agency used time estimates rather than actual hours worked to charge direct payroll expenditures to the DMH program for staff that worked on multiple programs.

We have attached the details of our review along with recommendations for corrective action.

## Review of Report

We discussed the results of our review with LACGC on September 6, 2007. In their attached response, the Agency described the corrective actions they are taking to address the recommendations in our report.

We thank LACGC management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Elizabeth Pfromm, Executive Director, LACGC
Public Information Office
Audit Committee

## CONTRACT COMPLIANCE REVIEW
## LOS ANGELES CHILD GUIDANCE CLINIC
## FISCAL YEAR 2006-07

### BILLED SERVICES

**Objective**

Determine whether Los Angeles Child Guidance Clinic (LACGC or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

**Verification**

We judgmentally selected 40 billings totaling 4,685 minutes from 24,597 service minutes of approved Medi-Cal billings for services provided during September and October 2006. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 4,685 minutes represent services provided to 26 program participants.

**Results**

LACGC maintained documentation to support the service minutes sampled. In addition, the Agency completed Assessments and Progress Notes in compliance with the County contract. However, the Agency did not maintain complete Client Care Plans for five (14%) of the 26 clients sampled. Specifically, the five Client Care Plans did not contain goals and planned interventions for each type of treatment provided.

**Recommendation**

1. **LACGC management ensure that Client Care Plans are completed in accordance with the County contract.**

### CLIENT VERIFICATION

**Objectives**

Determine whether the program clients received the services that LACGC billed DMH.

**Verification**

We interviewed eight participants that the Agency billed DMH for services during September and October 2006.

**Results**

The eight program participants interviewed stated that the services received from the Agency met their expectations.

**Recommendation**

**There are no recommendations for this section.**

## STAFFING LEVELS

**Objective**

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency did not provide services that require compliance with staffing ratios for this particular funding program.

## STAFFING QUALIFICATIONS

**Objective**

Determine whether LACGC's treatment staff possessed the required qualifications to provide the services.

**Verification**

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 21 of 131 LACGC treatment staff who provided services to DMH clients during September and October 2006.

**Results**

Each employee in our sample possessed the qualifications required to deliver the services billed.

**Recommendation**

**There are no recommendations for this section.**

## SERVICE LEVELS

### Objective

Determine whether LACGC's reported service levels varied significantly from the service levels identified in the DMH contract.

### Verification

We obtained the FY 2005-06 Cost Report submitted to DMH by LACGC and compared the dollar amount and billed units of service to the contracted units of service identified in the contract for the same period.

### Results

Overall, LACGC provided the service levels outlined in the County Contract.

#### Recommendation

**There are no recommendations for this section.**

## CASH / REVENUE

### Objective

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. Determine whether there were adequate controls over cash.

### Verification

We interviewed LACGC's management and reviewed the Agency's financial records. We also reviewed the Agency's bank reconciliation for November 2006.

### Results

LACGC properly recorded and deposited cash receipts timely. However, the bank reconciliation contained six checks totaling $5,901 that were outstanding for more than one year. Subsequent to our review, the Agency stopped payment on the checks and issued replacements.

#### Recommendation

2. **LACGC's management ensure that reconciling items are resolved in a timely manner.**

## EXPENDITURES

### Objective

Determine whether program expenditures were allowable under the County contract, properly documented and accurately billed.

### Verification

We reviewed financial records and documentation for 14 non-payroll expenditure transactions charged by the Agency to the mental health program totaling $15,450.

### Results

LACGC's expenditures were allowable and accurately billed to DMH. However, LACGC staff did not always match the requisition, original invoice and receiving documents before paying for the goods/services.

#### Recommendation

3. **LACGC management ensure that prior to payment the accounts payable staff performs a three-way match of the requisition, original invoice and receiving documents.**

## FIXED ASSETS AND EQUIPMENT

### Objective

Determine whether fixed assets and equipment costs charged to DMH were used for the DMH program and adequately safeguarded.

### Verification

We interviewed staff and reviewed the Agency's fixed assets and equipment listing. We also performed an inventory for a sample of five assets.

### Results

The Agency appropriately allocated total Agency fixed asset and equipment costs to DMH. In addition, the Agency adequately safeguarded their fixed assets and equipment.

#### Recommendation

**There are no recommendations for this section.**

## PAYROLL AND PERSONNEL

### Objective

Determine whether payroll is appropriately charged to the DMH program.

### Verification

We selected a sample of 15 employees from the Agency's 185 employees and reviewed the payroll records and time reports for the pay period ending November 25, 2006. We also interviewed staff and reviewed their personnel file.

### Results

The time reports maintained by staff did not indicate the amount of time they spent working on each program as required. Agency management explained that their payroll system did not allow staff working on multiple programs to identify the hours they worked on each program. Payroll costs for these staff were charged to the programs based on time estimates. As a result, direct payroll expenditures were not based on actual hours worked on the program. Two of the fifteen staff in our sample worked on multiple programs.

#### Recommendation

4. **LACGC management ensure that employees' time reports indicate the total hours worked each day by program and use the time reports to allocate payroll costs.**

## COST ALLOCATION PLAN

### Objective

Determine whether LACGC'S Cost Allocation Plan is prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

### Verification

We reviewed the Agency's Cost Allocation Plan, interviewed management and reviewed documentation to support their allocation of indirect costs billed to the DMH.

### Results

The Agency allocated employee benefit costs to the DMH program for staff positions that received little or no employee benefits (i.e., contractors and temporary employees). As a result, the Agency overbilled $62,240 to DMH. In May 2007, LACGC submitted a revised Cost Report to DMH that excluded the $62,240.

**Recommendation**

5. **LACGC management revise the Cost Allocation Plan to ensure an equitable allocation of fringe benefit costs and repay DMH if they inappropriately receive funds related to $62,240.**

## COST REPORT

**Objective**

Determine whether LACGC's Cost Report appropriately identifies program costs including direct and indirect costs.

**Verification**

We interviewed management and reviewed the Agency's FY 2005-06 Cost Report and accounting records.

**Results**

LACGC's Cost Report submitted to DMH for FY 2005-06 included $493,733 in non-DMH costs. Agency management explained that the overbilling was due to a clerical error. In May 2007, LACGC submitted a revised Cost Report that excluded the amount overbilled.

**Recommendation**

6. **LACGC management ensure that future Cost Reports include only costs applicable to the DMH program.**

**Attachment**

# Los Angeles Child Guidance Clinic

*A nonprofit community-based agency which has served the needs of children and families in Central and South Los Angeles since 1924. For more information, visit our website at www.lacgc.org*


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Fax (323) 373-2442
HUMAN RESOURCES
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LIFE LEARNING
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Elizabeth W. Pfromm, M.A., MPA
EXECUTIVE DIRECTOR

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*A Charter Agency of the United Way of Greater Los Angeles*

*A Short Doyle Contractor of the County of Los Angeles*

*Affiliate of USC Keck School of Medicine, Division of Child and Adolescent Psychiatry*

*Accredited by The Rehabilitation Accreditation Commission for Job Development and Placement Services*

*A Non-Public School Contractor of the Los Angeles Unified School District*


December 5, 2007

This Response To Be Appended to Auditor-Controller Compliance Review Report

Mr. J. Tyler McCauley
Los Angeles County Auditor-Controller
500 West Temple, Room 525
Los Angeles, CA 90012

RE: Response to Auditor-Controller Contract Compliance Review for Fiscal Year 2005-2006

Dear Mr. McCauley:

We are very pleased by the attached review of the Clinic's compliance with its County contract, which specifically notes that:

1) the Clinic provided service levels as outlined in the contract;
2) qualified staff were used by the Clinic to perform the services billed;
3) our clients stated that the services they received from Clinic staff met their expectations;
4) our staff completed Assessments and Progress Notes in compliance with contract provisions; and
5) the Clinic appropriately allocated assets and equipment costs to DMH and safeguarded its fixed assets and equipment.

These are highly significant results which acknowledge management and staff efforts to provide quality services to a needy population in an ever increasing compliance environment. We thank the auditors for their very professional conduct, patience and helpfulness throughout the lengthy audit process.

We respectfully submit this response to the statement that the Clinic did not always comply with the contract provisions, and the recommendations made.

## 1) BILLED SERVICES

**Issue:**

LACGC maintained documentation to support the service minutes sampled. In addition, the Agency completed Assessments and Progress Notes in compliance with the County contract. However, the Agency did not maintain complete Client Care Plans for five (14%) of the 26 clients sampled.

Specifically, the five Client Care Plans did not contain goals and planned interventions for each type of treatment provided.

**Recommendation:**

**LACGC management ensure that Client Care Plans are completed in accordance with the County contract.**

**Response:**

The Clinic is pleased with the overall finding that documentation was in place for the 40 billings sampled. We concur that 5 cases require goals for some services provided. We have instituted a special, manual chart tool to ensure that this requirement is met. This tool will supplement our existing 54 item chart review tool. Maintaining compliance with 54 Medi-Cal billing rules and requirements per chart and per billing is very labor intensive and costly. The Clinic is looking forward to implementation of its new Clinic Management Software System which will "mechanize" many of these rules to ensure compliance and free up precious staff time to devote to client care.

**2) CASH / REVENUE:**

**Issue:**

LACGC properly recorded and deposited cash receipts timely. However, the bank reconciliation contained six checks totaling $5,901 that were outstanding for more than one year. Subsequent to our review the Agency stopped payment on the checks and issued replacements.

**Recommendation:**

LACGC's management ensure that reconciling items are resolved in a timely manner.

**Response:**

Because LACGC realizes the importance of monitoring un-cleared checks, existing policy requires listing un-cleared checks in the bank reconciliation process. As explained to the auditors, the checks were issued timely but the payees did not cash the checks.

To strengthen procedures, the Clinic will redouble its efforts to research and remove all un-cleared checks from the bank reconciliation after six months. The Clinic will also have the comment "void after six months" imprinted on future company checks issued.

## 3) EXPENDITURES

**Issue:**

LACGC's expenditures were allowable and accurately billed to DMH. However, staff did not always match the requisition, original invoice and receiving documents before paying for the goods/services.

**Recommendation:**

LACGC management ensure that prior to payment the accounts payable staff performs a three-way match of the requisition, original invoice and receiving documents.

**Response:**

Importantly, the first issue of ensuring that sampled expenditures were allowable and accurately billed was 100% met. LACGC management will redouble its efforts to ensure that staff performs a three-way match in addition to other processes to manage purchasing, which we agree, provides adequate control.

## 4) PAYROLL AND PERSONNEL

**Issue:**

The time reports maintained by staff did not indicate the amount of time they spent working on each program as required. Agency management explained that their payroll system did not allow staff working on multiple programs to identify the hours they worked on each program. Payroll costs for these staff were charged to the programs based on time estimates. As a result, direct payroll expenditures were not based on actual hours worked on the program. Two of the fifteen staff in our sample worked on multiple programs.

**Recommendation:**

LACGC management ensure that employees' time reports indicate the total hours worked each day by program and use the time reports to allocate payroll costs.

**Response:**

At the time of the auditors' on-site visit, the Clinic was already modifying its Kronos computerized time system to include codes by program to allow program staff to track actual time, a status the Clinic calls "split staff." Implementation of "split-time" tracking constitutes our corrective action. Split staff track total hours worked each day by

program, to allow allocation of payroll costs. Time reports are used to allocate payroll costs.

## 5) COST ALLOCATION PLAN

**Issue:**

The Agency allocated employee benefit costs to the DMH program for staff positions that received little or no employee benefits (i.e., contractors and temporary employees). As a result, the Agency overbilled DMH program expenditures totaling $62,240 to DMH. In May 2007, LACGC submitted a revised Cost Report to DMH that excluded the $62,240.

**Recommendations:**

LACGC management revise the Cost Allocation Plan to ensure an equitable allocation of fringe benefit costs and repay DMH if they inappropriately receive funds related to $62,240.

**Response:**

LACGC utilizes contracted services (independent contractors) to provide medication support and the services of some outside temporary agencies. Though referred to in the attached review as temporary employees, this classification is inaccurate. To clarify, persons assigned to work at LACGC by outside temporary agencies are not Clinic employees. Also, by definition, contractors do not hold staff positions.

LACGC submitted a revised cost report to DMH which contains both the fringe benefit cost adjustment and adjusted costs made by our independent auditor. (These latter adjustments were in LACGC's favor.) Our contract maximum for FY 05/06 was $11,712,000. The two adjustments made result in costs of $11,598,417. Advances received from DMH are $11,688,044. If there are no other adjustments between now and cost settlement time, then the Clinic will owe DMH $89,627.

The Clinic has taken action to adjust its fringe benefits formula for contractors and temp agency staff costs appropriated to DMH by way of its cost allocation methodology.

## 6) COST REPORT

**Issue:**

LACGC's Cost Report submitted to DMH for FY 2005-06 included $493,733 in non-DMH costs. Agency management explained that the overbilling was due to a clerical error. In May 2007, LACGC submitted a revised Cost Plan that excluded the amount overbilled.

**Recommendation:**

LACGC management ensure that future Cost Reports include only costs applicable to the DMH program.

**Response:**

As confirmed by Auditor-Controller staff during our exit interview, it was Clinic staff who surfaced the clerical error. The Clinic had initiated correction of a clerical error on DMH form LAC 101, referred to here as the Clinic's Cost Report. The Clinic properly includes costs applicable to DMH.

Initially, the cover sheet of the Cost Report package, form LAC 101, included a clerical error of $493,733. Attached to the cover sheet was the Clinic's general ledger worksheet and supporting documents. Though the top form had a mistake, the package noted and supported an accurate total of $11,564,381. After we reported the mistake to DMH, DMH directed the Clinic to resubmit the form. The Clinic has already done so. We will redouble our efforts to ensure that such clerical errors do not occur in the future.

As background: a cost report does not serve as a static billing to the County. At cost settlement time both parties (DMH and LACGC) provide evidence of needed adjustments to the Cost Report. In the interim, additional units of billed service may be identified or submitted units denied, so that changes in revenue may impact the cost settlement process in favor of DMH or the Clinic. The purpose of the cost settlement process is to consider all factors related to payment including allowable costs and contractual provisions, including contract maximum (contract maximum caps the amount a given contract agency can receive regardless of its total costs or billable claims). Adjustments may be made by either party between the time of cost report submission and time of cost settlement. Because repayment demands trigger access to what may result in protracted and labor-intensive appeals via Title 22, any and all such issues are consolidated at the time of cost report settlement and managed as a single appeal, as appropriate.

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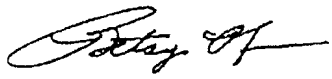
In sum, Clinic management actively exercises oversight and properly acts to maintain compliance with its County contract. Of the six recommendation areas, three already

were or currently are, in place. Improving existing procedures for the remaining three will lead to optimal compliance.

We thank the auditors for their constructive and positive interactions with us, as well as the opportunity to respond to this Compliance Review.

Sincerely,



Elizabeth Pfromm M.S., MPA
Executive Director