COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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October 15, 2007

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **PACIFIC CLINICS CONTRACT COMPLIANCE REVIEW – A DEPARTMENT OF MENTAL HEALTH SERVICE PROVIDER**

We have completed a contract compliance review of Pacific Clinics (Agency), a Department of Mental Health (DMH) service provider.

Background

DMH contracts with Pacific Clinics, a private non-profit community-based organization which provides services to clients in Service Planning Areas 2, 3 and 7. 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 Fifth District.

Our review focused on approved Medi-Cal billings. Throughout the fiscal year, DMH paid Pacific Clinics a provisional rate between $1.53 and $3.65 per minute of staff time ($91.80 to $219.00 per hour). In addition, DMH paid the Agency $90.40 for services billed by the half-day and between $109.24 and $153.42 for services billed by the full-day. At the end of the fiscal year, Pacific Clinics prepares a Cost Report and is reimbursed for their actual costs. Pacific Clinics contract was for approximately $54.3 million for Fiscal Year 2006-07.

Purpose/Methodology

The purpose of the review was to determine whether Pacific Clinics 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

Overall, Pacific Clinics provided the services billed to DMH and the Agency used qualified staff to perform the services billed. In addition, the Agency generally completed the Progress Notes and Weekly Summaries in accordance with the County contract. However, Pacific Clinics did not always comply with the provisions of the DMH contract. For example,

- Client Care Plans were not always completed in accordance with the County contract.
- The Day Rehabilitation and Day Treatment programs did not meet the minimum required duration.
- The Day Rehabilitation program did not always maintain the appropriate staff to client ratio.
- The Agency pooled all their fixed assets and equipment costs and allocated a portion of the costs to the DMH program rather than charging the DMH program based on the benefit received from each asset.

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 Pacific Clinics on August 16, 2007. In their attached response, the Agency indicated the actions they will take to address the recommendations in our report.

We thank Pacific Clinics 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
Susan Mandel, President/CEO, Pacific Clinics
Public Information Office
Audit Committee

CONTRACT COMPLIANCE REVIEW
PACIFIC CLINICS
FISCAL YEAR 2005-06

BILLED SERVICES

Objective

Determine whether Pacific Clinics, Inc. (Pacific Clinics or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

Verification

We judgmentally selected 140 billings totaling 16,026 minutes from 2.9 million service minutes, 12 full day billings from 1,978 service days and two half day billings from 912 service half days of approved Medi-Cal billings for services provided during May and June 2006. We reviewed the Assessments, Client Care Plans, Progress Notes and Weekly Summaries maintained in the clients' chart for the selected billings. The 16,026 minutes, 12 days and two half days represent services provided to 143 program participants.

Results

Pacific Clinics maintained Progress Notes to support 96% of the service minutes and maintained Weekly Summaries and sign-in sheets to support 100% of the service days and half days billed to DMH. In addition, the Agency generally completed Assessments, Progress Notes and Weekly summaries in accordance with the County contract.

Client Care Plans

Pacific Clinics did not maintain completed Client Care Plans for 42 (29%) of the 143 charts sampled. The Client Care Plan establishes goals and interventions that address the mental health issues identified in the clients' Assessments. Specifically:

- Three charts did not contain Client Care Plans.
- Twenty-five Client Care Plans did not contain goals and planned interventions for each type of treatment provided.
- Sixteen Client Care Plans did not contain observable and/or quantifiable goals.

The total number of Client Care Plans described above exceeds the total number of Client Care Plans cited because some of the Client Care Plans contained more than one deficiency.

Informed Consent for Medication

Pacific Clinics did not maintain Informed Consent forms for two (5%) of 40 clients sampled. Informed Consent documents the clients' agreement to a proposed course of treatment based on receiving clear, understandable information about the treatments' potential benefits and risks.

Day Treatment Intensive and Day Rehabilitation Program Duration

The County contract requires Pacific Clinics to operate a full-day Day Treatment Intensive (DTI) program, a half-day DTI program and a full-day Day Rehabilitation (DR) program. The County contract specifies that the Agency must provide more than four hours of service to bill DMH at the full-day rate and at least three hours of service to bill DMH at the half-day rate. These timeframes do not include time spent for lunch, dinner and breaks. The Agency maintains program schedules to document compliance with these requirements.

The scheduled sessions for the DTI and DR programs did not meet the minimum timeframes. Specifically, the duration for the half-day DTI lasted approximately 2 hours and 15 minutes and the duration for the full-day DR lasted approximately 3 hours and 30 minutes. The Agency should work with DMH management to determine the amounts over billed.

Recommendations

Pacific Clinics management:

1. **Ensure that Client Care Plans are completed in accordance with the County contract.**

2. **Ensure that Informed Consent is documented in the client's chart.**

3. **Ensure the duration of the Day Rehabilitation and Day Treatment Intensive programs meet the required timeframes.**

4. **Work with DMH management to determine the amount over billed for its Day Rehabilitation and Day Treatment Intensive programs and repay DMH.**

CLIENT VERIFICATION

Objectives

Determine whether the clients received the services that Pacific Clinics billed DMH.

Verification

We interviewed eight participants that the Agency billed DMH for services.

Results

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

Recommendation

There are no recommendations for this section.

STAFFING LEVELS

Objective

Determine whether Pacific Clinics maintained the appropriate Qualified Mental Health Professional staff to client ratios of 1:10 in its Day Rehabilitation program and 1:8 in its Day Treatment program as required by the County contract.

Verification

We reviewed the client attendance sheets, staff rosters and staff timecards for 14 Day Treatment days and 14 Day Rehabilitation days conducted in May and June 2006.

Results

Pacific Clinics maintained the appropriate staffing ratios in the 14 Day Treatment days reviewed. However, for seven (50%) of the 14 Day Rehabilitation days sampled, the Agency did not maintain the appropriate staffing ratios. Specifically:

- For six of the 14 Day Rehabilitation days, the Agency maintained less staff than required or a staffing ratio of 1:12.
- The Agency did not provide documentation to support the appropriate staffing ratios for one day.

Recommendations

Pacific Clinics management:

5. **Maintain appropriate staffing levels in the Day Rehabilitation program using qualified staff.**

6. **Maintain documentation to support its compliance with the staffing ratio requirements of the Day Rehabilitation program.**

STAFFING QUALIFICATIONS

Objective

Determine whether Pacific Clinics 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 20 of 333 treatment staff.

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 Pacific Clinics' reported service levels varied significantly from the service levels identified in the DMH contract.

Verification

We obtained the Fiscal Year (FY) 2005-06 Cost Report submitted to DMH by Pacific Clinics 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, Pacific Clinics operated within its contracted amount of $49.8 million for FY 2005-06. However, within specific service categories, the Agency substantially deviated from Day Rehabilitation and Day Treatment service levels indicated in the contract.

Pacific Clinics' management explained that the discrepancy occurred because the contracted service levels did not accurately reflect their planned Day Treatment program and Day Rehabilitation program service units. DMH acknowledged that the

service levels identified in the contract for Day Treatment and Day Rehabilitation services were incorrect and that the Agency provided the expected service levels. However, the Agency is required to obtain prior written authorization from DMH before deviating from the service levels identified in the contract.

Recommendation

7. **Pacific Clinics management obtain written authorization from DMH prior to deviating from contracted service levels.**

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 are adequate controls over cash.

Verification

We interviewed Pacific Clinics management and reviewed the Agency's financial records. We also reviewed the Agency's bank reconciliations for their cash and payroll bank accounts for June 2006.

Results

Pacific Clinics properly recorded and deposited cash receipts timely. However, the bank reconciliation contained 71 checks totaling $19,205 that were more than one year outstanding.

Recommendation

8. **Pacific Clinics management ensure that reconciling items are resolved in a timely manner.**

EXPENDITURES

Objective

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

Verification

We reviewed Pacific Clinics' financial records and supporting documentation for 26 non-payroll expenditure transactions charged to the DMH program totaling $69,900.

Results

The Agency appropriately billed the expenditures to DMH.

Recommendation

There are no recommendations for this section.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether fixed assets and equipment charged to the DMH program are used for the Mental Health program and adequately safeguarded.

Verification

We interviewed staff and requested a list of fixed assets and equipment.

Results

Pacific Clinics pooled all their fixed assets and equipment costs and allocated a portion of the costs to the DMH program rather than charging the DMH program based on the benefit received from each asset. The Agency also did not maintain an appropriate fixed asset and equipment listing. An appropriate listing would include the assigned individual, the item description, a serial number or unique identifier, acquisition cost, source of funding, and the program where the asset is used. In addition, Agency management indicated that it has been several years since they last conducted an inventory of fixed assets and equipment.

Recommendations

Pacific Clinics management:

9. **Maintain a fixed asset and equipment listing and perform an annual inventory.**

10. **Ensure that fixed assets and equipment costs charged to the DMH programs are based on the benefits received by the programs.**

PAYROLL

Objective:

Determine whether payroll is appropriately charged to the DMH program.

Verification:

We compared the payroll expenditures for 30 (21%) of 145 employees to the payroll records and time reports for August 2006. We also interviewed 12 employees and reviewed their personal files.

Results:

Overall, Pacific Clinics appropriately charged payroll expenditures to the DMH program and documented the expenditures in accordance with the County contract.

Recommendation

There are no recommendations for this section.

COST ALLOCATION PLAN

Objective

Determine whether Pacific Clinics' Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

Verification

We reviewed Pacific Clinics' Cost Allocation Plan and reviewed the Agency's documentation to support their monthly allocation of indirect costs charged to the DMH programs for May 2006.

Results

Pacific Clinics' Cost Allocation Plan was appropriate and the Agency appropriately allocated indirect costs to the DMH programs during the month sampled.

Recommendation

There are no recommendations for this section.

Pacific Clinics
ADVANCING BEHAVIORAL HEALTHCARE

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September 12, 2007

Los Angeles County Department of Auditor-Controller
1000 S. Fremont Ave., Unit 51
Alhambra, CA 91803-4737
Attn: J. Tyler McCauley, Auditor-Controller

Dear Mr. McCauley,

This is in response to the Department of Auditor-Controller's Contract Compliance review of services provided by Pacific Clinics. As requested, Pacific Clinics submits the following Corrective Action Plan in response to the Auditor-Controller's recommendations:

BILLED SERVICES

Recommendation 1.
"Ensure that Client Care Plans are completed in accordance with the County contract."

Pacific Clinics will continue to enforce the County policy that all charts maintain a client care plan whenever the client receives planned services. Pacific Clinics will ensure that the goals on the plan reflect those of the County and State guidelines.

Recommendation 2.
"Ensure that informed Consent is documented in the client's chart."

Pacific Clinics will continue to ensure that client's charts have an updated medication consent form for all medications that are prescribed.

Recommendation 3.
"Ensure the duration of the Day Rehabilitation Program and the Day Treatment Programs meet the required timeframes."

Recommendation 4.
"Work with DMH management to determine the amount over billed for its DTI and DR programs and repay DMH."

Pacific Clinics' management understands the time and scheduling requirements as well as the audit oversight issues of the Day Treatment Programs and has already taken steps to ensure compliance. We also understand our client's needs in these programs. Therefore, we have chosen to continue to provide our quality full-day services but only bill for half-day services. We believe that this is the only way to fully address the needs of our clients while at the same time addressing the stringent compliance requirements.

STAFFING LEVELS

Recommendation 5.
"Maintain appropriate staffing levels in the Day Rehabilitation program using qualified staff."

Pacific Clinics will ensure that there is the appropriate number of qualified staff based on the number of consumers that are reflected on the Sign-In sheet in the Day Rehabilitation program.

Recommendation 6.
"Maintain documentation to support its compliance with the staffing ratio requirements of the Day Rehabilitation Program."

Pacific Clinics will maintain resumes and licenses for staff who provide services in the Day Rehabilitation Program.

SERVICE LEVELS

Recommendation 7.
"Pacific Clinics management obtains written authorization from DMH prior to deviating from contracted service levels."

Pacific Clinics management understands the importance of providing the agreed upon amount of services per our contract and will continue to provide, and in most cases surpass, the service levels required. During our internal monitoring throughout the year, we will ensure the County is notified of any estimated service level variances in writing.

Recommendation 8.
"Pacific Clinics management ensures that reconciling items are removed from bank reconciliation in a timely manner."

Pacific Clinics management will strictly enforce our existing policy to resolve all outstanding checks in a timely manner and to remit any unclaimed checks to the State as required.

FIXED ASSETS AND EQUIPMENT

Recommendation 9.
"Maintain a fixed asset and equipment listing and perform an annual inventory."

Pacific Clinics has installed and implemented a new Fixed Asset System (FAS) that will enable management to maintain fixed asset listings and perform inventory.

Recommendation 10.
"Ensure that fixed assets and equipment costs charged to the DMH programs are based on the benefits received by the programs."

Pacific Clinics' management will make additional efforts to enhance our existing policies regarding the identification and control of fixed assets to the point that it is cost beneficial to DMH. Additionally, the current method of allocating depreciation amongst our programs has been confirmed by external and federal program auditors as an accepted method of allocating expenses per federal OMB A-122 guidelines. These guidelines ensure that all programs receive an appropriate share of cost based on a specified base of use. However, management will make efforts

to review all future purchases to determine the merits of charging qualifying asset's depreciation directly to DMH.

I would like to thank you and your staff for assisting us through this process and conducting the review in a very positive and professional manner. Please let me know if you have any questions or need further information regarding any of the items addressed in this response.

Sincerely,

Susan Mandel, Ph.D.
President/CEO

Cc: Dr Marvin J. Southard –Director, Department of Mental Health