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January 8, 2008

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: **VIP COMMUNITY MENTAL HEALTH CENTER, INC. CONTRACT COMPLIANCE REVIEW – A DEPARTMENT OF MENTAL HEALTH SERVICE PROVIDER**

We have completed a contract compliance review of VIP Community Mental Health Center, Inc. (VIP or Agency), a Department of Mental Health (DMH) service provider.

Background

DMH contracts with VIP, a private non-profit community-based organization which provides services to clients in Service Planning Area 4. 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 First District.

Our review focused on approved Medi-Cal billings. DMH paid VIP a provisional rate between $1.93 and $4.61 per minute of staff time ($115.80 to $276.60 per hour) for services. However, VIP is reimbursed for their actual costs reported at year-end. VIP's contract was for approximately $5.9 million for Fiscal Year (FY) 2006-07.

Purpose/Methodology

The purpose of the review was to determine whether VIP 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

The Agency completed the clients' Progress Notes in accordance with the County contract. In addition, VIP's staff assigned to the County contract possessed the required qualifications. However, the Agency did not always comply with other contract provisions. Specifically:

- The Assessments for 13 (52%) of the 25 clients sampled did not adequately describe the symptoms and behaviors exhibited by the client to support the Agency's clinical diagnosis.

- The Client Care Plans for 13 (52%) of the 25 clients sampled did not contain goals that were measureable/observable. In addition, the goals contained in the Client Care Plans for three (12%) of the 25 clients sampled did not relate to the clients' functional impairments.

- The Agency charged $13,448 to the DMH program for undocumented and unallowable expenditures.

- The Agency did not have a written Cost Allocation Plan.

We also identified areas where the Agency could enhance its internal controls over cash, expenditures and equipment functions.

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 VIP on September 6, 2007. In their attached response, the Agency described their corrective actions to address the recommendations in our report. The Agency's response also indicated that they intend to allocate shared costs based on a percent of revenue or monthly time allocation studies supported with resources data. If the Agency uses revenue to allocate costs, it needs to ensure that shared costs are allocated to programs that benefited from the costs.

We thank VIP 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
Dr. Astrid Heger, Executive Director, VIP Community Mental Health Center, Inc.
Public Information Office
Audit Committee

CONTRACT COMPLIANCE REVIEW
VIP COMMUNITY MENTAL HEALTH CENTER, INC
FISCAL YEAR 2006-07

BILLED SERVICES

Objective

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

Verification

We judgmentally selected 35 billings totaling 3,881 minutes from 219,818 service minutes of approved Medi-Cal billings to DMH for services provided during March and April 2007. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 3,881 minutes represent services provided to 25 program participants.

Results

VIP maintained documentation to support 97% of the service minutes sampled. In addition, the Agency completed Progress Notes in compliance with the County contract. However, the Agency did not complete Assessments and Client Care Plans in accordance with the County contract.

Assessments and Client Care Plans

VIP did not complete Assessments for 13 (52%) of 25 clients sampled in accordance with the County contract. An Assessment is a diagnostic tool used to document the clinical evaluation of each client and establish the client's mental health treatment needs. Specifically, the Assessments did not adequately describe the symptoms and behaviors exhibited by the client to support the Agency's clinical diagnosis. The County contract requires Agencies to follow the Diagnostic and Statistical Manual of Mental Disorders (DSM) when diagnosing clients. The DSM is a handbook published by the American Psychiatric Association for mental health professionals, which lists different categories of mental disorder and the criteria for diagnosing them.

In addition, VIP did not complete the Client Care Plans for 14 (56%) of 25 clients sampled in accordance with the County contract. Specifically:

- Thirteen Client Care Plans contained goals that were not observable and/or quantifiable.

- Three Client Care Plans did not contain goals that related to the problems or functional impairments identified in the Assessments.

The number of incomplete Client Care Plans in the examples above exceeds the overall number of incomplete Client Care Plans because some of the Client Care Plans contained more than one deficiency.

Recommendation

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

CLIENT VERIFICATION

Objectives

Determine whether the clients received the services that VIP billed DMH.

Verification

We interviewed six participants that the Agency billed DMH for services during March and April 2007.

Results

The six program participants interviewed stated that they received services from the Agency and that the services 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 staffing ratios for this particular program.

STAFFING QUALIFICATIONS

Objective

Determine whether VIP'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 11 of 40 VIP treatment staff who provided services to DMH clients during March and April 2007.

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 VIP's reported service levels by type varied significantly from the service levels identified in the DMH contract.

We did not perform test work in this area as DMH's contract with VIP did not specify the required service levels for each type of service provided for FY 2006-07.

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. In addition, determine whether the Agency maintained adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed VIP's management and reviewed the Agency's financial records. We also reviewed the Agency's bank reconciliations for June 2007 for three bank accounts.

Results

VIP properly recorded and deposited cash receipts timely. However, the bank reconciliation for one of the Agency's three bank accounts contained 13 checks totaling $2,337 that were outstanding for more than three years and three reconciling items totaling $1,017 that were outstanding for more than two years. Agency management could not explain why the outstanding checks and other reconciling items were not resolved. As a result, the Agency may have overstated prior year's expenditures.

The Agency also did not separate cash handling and bank reconciliation duties. In addition, the Agency did not maintain documentation to support 14 petty cash transactions totaling $368 or reconcile the petty cash account monthly.

Recommendations

VIP management:

2. **Ensure that reconciling items are resolved timely, follow-up on the outstanding checks and credit the appropriate funding sources, if necessary.**

3. **Ensure that bank reconciliations are prepared by staff that do not have cash handling responsibilities.**

4. **Repay DMH $368 and maintain documentation to support petty cash expenditures.**

5. **Reconcile the petty cash fund monthly.**

EXPENDITURES

Objective

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

Verification

We reviewed financial records and documentation for 20 non-payroll expenditure transactions charged to the DMH program during Fiscal Year (FY) 2006-07, totaling $69,166.

Results

Overall, the Agency maintained documentation to support program expenditures. However, two (10%) of the 20 transactions totaling $3,892 were for non-program related activities. Specifically, VIP charged the DMH program:

- $3,025 to purchase eleven seats for a charity event which is an unallowable cost.
- $867 for a staff holiday lunch.

In addition, as noted below, the Agency needs to improve their controls over the procurement process.

Agency management subsequently completed their Cost Report and excluded the $3,025 disallowed costs identified above.

Recommendation

VIP management:

6. **Ensure that only allowable expenditures are charged to the DMH program.**

7. **Repay DMH $867.**

INTERNAL CONTROLS

Objective

Determine whether the Agency maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

Results

VIP did not establish separate cost centers for each program. At the end of the year, Agency management reviews their general ledger to identify non-DMH program costs. This process is tedious and increases the likelihood that the Agency would inadvertently bill DMH for non-DMH expenditures.

In addition, the Agency's accounts payable staff did not match the original invoices with pre-approved requisitions to ensure that management authorized the expenditures.

Recommendations

VIP management:

7. **Establish separate cost centers for each program.**

8. **Ensure that prior to payment the accounts payable staff performs a three-way match of the pre-approved requisition, original invoice and documentation to support the receipt of goods/services.**

FIXED ASSETS AND EQUIPMENT

Objective

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

Verification

We interviewed staff and reviewed the Agency's fixed assets and equipment listing. In addition, we performed a physical inventory of eight items.

Results

VIP's fixed assets and equipment listing was not accurate. Specifically, five items charged to the DMH program were not included on their fixed assets and equipment listing. In addition, the listing did not identify the individuals assigned to the equipment or the equipments' acquisition costs. A proper listing would include the assigned individual, item description, serial number or unique identifier, acquisition cost, sources of funding and the program(s) where the asset is used.

In addition, VIP's depreciation schedule for Fiscal Year (FY) 2006-07 included $3,802 in depreciation for diagnostic ultrasound equipment that was not used by the DMH program. The Agency subsequently submitted their FY 2006-07 Cost Report excluding the $3,802 in depreciation costs. However, the Agency needs to repay $5,386 to DMH for prior years' depreciation costs related to the asset. The Agency also removed 15 computers from their inventory during the year but did not document the disposal process as required.

Recommendations

VIP management:

9. **Ensure fixed assets and equipment charged to the DMH program are included in the fixed assets and equipment listing.**

10. **Ensure the fixed assets and equipment listing includes the assigned individual, item description, serial number or unique identifier, acquisition cost, source of funding and the program(s) where the asset is used.**

11. **Ensure that the DMH program is only charged for expenditures that benefit DMH clients.**

12. **Repay the County $5,386 for depreciation costs charged to the DMH program in prior years.**

13. **Ensure that equipment disposal is properly documented.**

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures are appropriately charged to the program.

Verification

We traced the payroll expenditures for ten employees totaling $17,851 to payroll records and time reports for the two week pay period ending June 2007. We also reviewed their personnel files and interviewed nine employees.

Results

VIP appropriately charged payroll and benefit expenditures to the DMH program.

Recommendation

There are no recommendations for this section.

COST ALLOCATION PLAN

Objective

Determine whether VIP's 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 interviewed management and reviewed the Agency's accounting records for Fiscal Year 2006-07 to ensure that the expenditures were appropriately allocated to the Agency's programs.

Results

VIP did not have a written Cost Allocation Plan. During FY 2006-07, the Agency charged the DMH program for 100% of their administration costs totaling $726,972 even though 18% of the Agency's total direct program expenditures related to non-DMH contracted services.

Recommendations

VIP management:

14. Develop a detailed and equitable Cost Allocation Plan.

15. Allocate costs on a monthly basis in accordance with the plan.

16. Reallocate shared program expenditures for FY 2005-06 and 2006-07 and submit a revised Cost Report to DMH.

COST REPORT

Objective

Determine whether VIP's FY 2005-06 Cost Report was completed in accordance with the County contract.

Verification

We compared the Agency's FY 2005-06 Cost Report with the Agency's general ledger.

Results

The total Agency expenditures listed on VIP's Cost Report reconciled to the Agency's accounting records.

Recommendation

There are no recommendations for this section.

VIP Community Mental Health Center

December 17, 2007

J. Tyler McCauley, Auditor-Controller
Countywide Contract Monitoring Division
Los Angeles County Department of Auditor-Controller
1000 S. Fremont Ave., Unit 51
Alhambra, CA 91803-4737

Re: ***Response to VIP Community Mental Health Center, Inc. (VIP CMHC) Contract Compliance Review***

VIP CMHC is dedicated to providing the highest quality of services to its clients. The management team acknowledges that maintaining compliance to its contract with DMH is critical.

As a result of the Contract Compliance Review, substantial efforts have been made toward improvement in the areas found to be deficient. We are hopeful that our efforts thus far will be acknowledged with the understanding that we are committed to continued oversight and improvements.

Our goal is always to be a model DMH funded program.

Action Plan for Recommendation 1: Assessments and Client Care Plans

As a result of the Auditor's review, the agency better understands the expectations of focusing on very specific symptoms that a child presents to support the given diagnosis. VIP CMHC clients are typically referred to the agency due to child abuse: neglect, witnessing domestic violence, physical abuse, sexual abuse and emotional abuse. In addition, many of them live in an environment with significant community and school violence. Therefore, they are a child population with high risk and complex situations. For example, seemingly unconnected symptoms such as irritability or outbursts of anger, difficulty concentrating, hyper vigilance, inability to recall the trauma or aspects thereof, restricted range of affect, repetitive play, dissociation, dreams, startle responses, etc. can support various diagnosis as well as support a diagnosis of PTSD. Historically, VIP CMHC clinicians observe that the child presents with more than anger or acting out behaviors and identify the range of symptoms, and diagnosis accordingly. However, with the additional clarity provided by the Auditor's review, the clinicians will in future focus even more on the specific symptoms that a child presents with and how they connect to support a particular diagnosis.

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Training and continuous review will be the cornerstone of VIP CMHC's approach to improve in this area. VIP CMHC has budgeted for and is actively searching to fill a full time Quality Assurance (QA) Manager position. To-date, an experienced QA consultant has been hired for training and review of documentation. The following trainings have occurred:

- 08/28/07: Audit Feedback with very clear explanation of areas that need to be improved
- 9/6/07: Supervisor training on Diagnosis and CCCP
- 9/10/07 – 9/13/07: Training for therapists by supervisors on Diagnosis and CCCP
- 10/1/07: DSM IV TR manuals provided to all clinicians
- 10/16/07: Diagnostic training on PTSD in Children, presented by Dr. Svetlana Anic Title: *GROWING UP AFRAID: Developmental Perspective of Posttraumatic Stress Disorder and Other Complex Stress Disorders in Children and Adolescents*
- Bi-weekly QA Meeting to discuss progress made by supervisors in identifying additional areas of needed training
- 11/6/07: CCCP Objectives training presented by QA Consultant
- Monthly supervisory training with QA Consultant to cover DMH documentation standards and expectations

Future trainings will include:

- Follow up with TF-CBT trainers
- Applications for treatment
- CCCP objectives
- Medical Necessity and Diagnosis
- Diagnosis
- Procedure Codes
- Documentation of Services and Clinical Record

Action Plan for Recommendations 2 – 9: Cash/Revenue, Expenditures, and Internal Controls:

Old Outstanding Checks/Reconciling Items

All old outstanding checks and bank reconciling items have now been adjusted for in the general ledger as outlined in the Audit Report. All funding sources have been credited appropriately.

Division of Duties in Relation to Performing DMH Bank Account Reconciliations

Due to the relatively small administrative staff size of VIP CMHC since its start up, it was not feasible to designate the duties of bank reconciliations to an independent staff member. However, in response to the Audit recommendations, VIP CMHC has recently made significant staffing changes to allow for these duties to be assigned to a staff member independent of cash handling responsibilities.

All bank accounts are now being reconciled within 30 days of the respective month end, in line with the Audit Report recommendations.

Reconciliation of Petty Cash Funds

In addition to the bank reconciliation process, the above mentioned staff member has been assigned duties to provide an independent reconciliation of the petty cash fund on a monthly basis. The policy and procedures for petty cash fund management have been updated to include:

(1) Request Form for pre-approval of purchase

(2) Reimbursement Form filled out by the recipient detailing the transaction with original receipt attached

(3) Ledger detailing date, recipient, expense category, funding source, and monthly opening and closing balances

Unallowable Expenditures

VIP CMHC will resubmit its cost report for FY 2006-2007 by December 19, 2007 excluding the following costs:

- $368 for unsupported petty cash expenditures.
- $867 for staff holiday lunch
- Indirect costs will be calculated based on appropriate allocations and the Cost Reports for FY 05-06 and 06-07 will be resubmitted. Appropriate backup

documentation explaining the allocations will be submitted to DMH. Please note that $309,802 of the total direct program expenditures referred to as non-DMH contracted services were expenses paid by private funds to support VIP CMHC's clients specifically served under the DMH contract.

Please note that the $3,025 purchase for eleven seats to a charity event was immediately corrected and was not included in the original Cost Report for FY 2006-2007 submitted September 15, 2007.

Internal Controls

VIP CMHC has contracted with an independent outside CPA consultant to implement improvements to its Internal Controls. The following improvements have been or are in the process of implementation:

- Monthly Cost Allocation and Budget Plans detailing appropriate separation of expenses
- Cost Centers to clearly identify expenses that support DMH contracted services
- Implementation of formal pre-approval documents and assigned staff person to match pre-approvals, original invoice, and packing slips to ensure appropriate level of documentation. Each document includes the funding source and intended program use. Having the requestor, approver, and the final recipient sign off on its use will ensure that the proper program will incur the expense.

Action Plan for Recommendations 10-14: Fixed Assets and Equipment

VIP CMHC has updated its policies and procedures for managing fixed assets and equipment (policy Fixed Assets_101.1). This policy has been updated to include the following:

- Three way documentation of proof of request, payment, and receipt of assets must be maintained.
- All fixed assets upon receipt are tagged with a unique VIP identifier.
- Designated staff shall maintain a current listing of fixed assets, including the VIP identifier, item description, serial number, date of purchase, acquisition cost, source of funding, and assigned program and location of use.
- Inventory of all fixed assts is conducted once each year to ensure all fixed assets are accounted for and maintained in the proper working order.

- All unassigned fixed assets are secured in locked designated areas to prevent misuse and theft of agency property.

- Formal documentation supporting approval of fixed asset disposable must exist before any asset is taken out of use.

- Quarterly updates to the Finance Department to ensure depreciation schedules are updated and reflect the appropriate programs to incur the expense.

To address Recommendation 13, VIP CMHC will resubmit its cost report for FY 2005-2006 ensuring that $3801.95 of depreciation costs erroneously included on the original submission is excluded. Additionally, VIP CMHC will pay back $1,584.14 for FY 2004-2005 depreciation. This in total will account for the $5,386 cited in the review.

Action Plan for Recommendations 15-17: Cost Allocation Plan

VIP CMHC historically and continues to add supplemental services to support its clients receiving DMH contracted services. Over the past fiscal years, a small amount of funds have been received for enhancement services that help VIP CMHC's DMH clients as well as reaching out to those who are at risk of needing such services. There are very few resources that are shared by non-DMH and DMH programs. It has been estimated based on total funding that 4% of salaries and benefits for Chief Operating Officer, Business Manger, and IT Manager should be allocated to non-DMH client support programs. All other associated supplies and facilities costs are marginal but are will be included as well. Appropriate corrections will be made to the Cost Reports for FY 05-06 and FY 06-07 and resubmitted to DMH by December 19, 2007.

Monthly Cost Allocation Plans have been created for FY 07-08 which lists costs in detail associated with DMH and non DMH client services. This plan will be updated monthly to reflect any changes. Shared resources will be allocated based on amount percent of total funds received or time allocation studies. However the method will be clearly defined and supported with resource data each year. (See also *Action Plan for Internal Controls).*

We have been diligently working to address your concerns and again are committed to being a model program for the County of Los Angeles. Please contact me if you have any questions or additional suggestions.

Sincerely,

Kelly Armaly, MBA
Chief Operating Officer