



J. TYLER McCaULEY
AUDITOR-CONTROLLER

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

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June 25, 2002

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

From: J. Tyler McCauley
Auditor-Controller

Subject: **DPSS FISCAL YEAR 2000-2001 FINANCIAL/COMPLIANCE AUDITS
OF STATE MANDATED PROGRAM CONTRACTS**

The Department of Public Social Services (DPSS) enters into contracts each year with numerous providers that perform various aspects of State mandated programs. The State requires that the County perform contract compliance and financial examinations of these contracts to ensure that State funding is used in accordance with applicable laws, regulations, policies and procedures.

DPSS requested that we arrange for the necessary financial/compliance audits of the affected contracts, some of which were multi-year agreements dating back to 1997. We contracted with the certified public accounting firm of Conrad and Associates through the County's Master Agreement for as needed audits/studies to conduct the audits.

Attachment A lists the 21 contracts that were audited along with a brief description of each provider's program. The contract auditors have reported their findings to both DPSS and the providers. One of the 21 reports identified a material weakness in the contractor's system of internal control. Specifically, the contract auditor determined that the contractor, Mount San Antonio College (MSAC), did not properly maintain records to support costs claimed on the quarterly billings for the actual operating costs of the program. In their response, MSAC indicated that they have taken corrective action to address the weakness noted. None of the reports identified material misstatements of allowable costs.

Also attached is Conrad and Associates' Management Letter (Attachment B) which includes DPSS' response to each of the contract auditor's recommendations.

Due to the volume of audit reports, copies of the individual reports were not attached. Should you require any additional information, please contact me directly at 974-8301, or have your staff contact Mike McWatters at 893-0791.

JTM:MWM
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Attachments

c: David E. Janssen, Chief Administrative Officer
Bryce Yokomizo, Director, Department of Public Social Services
Violet Varona-Lukens, Executive Officer, Board of Supervisors
Public Information Office
Audit Committee
Ronald E. Rowles, Engagement Manager, Conrad and Associates L.L.P.

WORK ORDER 5-68
CONTRACTS REQUIRING FINANCIAL COMPLIANCE AUDITS DURING FY 2000 - 2001

CONTRACT NAME and NUMBER	BRIEF DESCRIPTION OF SERVICE	NUMBER OF CONTRACTS	CONTRACTOR NAMES	EXPIRATION DATE/AUDIT PERIOD/ CONTRACT AMOUNT	DPSS CONTACT PERSON/BUSINESS UNIT/TELEPHONE NUMBER
Food Stamp Fiscal Services #68745	Process/controlling collection of FS overissuance claims and restoration of food stamp underissuances	1	CDS Net, Inc. 3435 Wilshire Blvd. 4 th Floor L. A. CA. 90010 Rudy Mairena, Project Manager (213) 427-2000	02/97 - 01/01 \$2,917,376.04 (On 1/12/99 the Board approved an 18 month extension of this contract with delegation to DPSS' Director to extend month to month as needed.)	Kathleen Stanton Property Management & Fiscal Services Div. Benefit Issuance Section (213) 639-5858
SSI Appeals Contract #68857 and 72346	Provide General Relief participants with representation at SSI Hearings	1	Law Offices of Devermont & Devermont Edie James Office Manager (310) 319-9548	03/26/99 Contract was extended through 08/03/01 (\$1, 568,700.00)	Daisy Joseph (562) 908-5832 General Relief Program BHASS

WORK ORDER 5-68
CONTRACTS REQUIRING COMPLIANCE AUDITS DURING FISCAL YEAR 2000 - 2001

CONTRACT NAME AND NUMBER	BRIEF DESCRIPTION OF SERVICE	NUMBER OF CONTRACTS	CONTRACTOR NAMES	EXPIRATION DATE/AUDIT PERIOD/ CONTRACT AMOUNT	DPSS CONTACT PERSON/BUSINESS UNIT/TELEPHONE NUMBER
CalWORKs Stage 1 Child Care Contract (Contract Numbers are listed with the Contractor Names)	Administration of CalWORKs Stage 1 Child Care	10 (Month-to Month extension in effect for three months effective 07/01/00. The 2 nd three month extension to be entered into 10/01/00 and will end 12/31/00.	Child Care Information Services Pasadena #CW 98-02 Child Care Resource Center #CW 98-09 Child and Family Services #CW 98-07 Children's Home Society of California #CW 98-05 Connections for Children #CW 98-08 Crystal Stairs, Inc. #CW 98-04 Equipoise, Inc. #CW 98-03	12/02/98 to 12/31/00 \$1,308,474.00 12/02/98 to 12/31/00 \$8,018,226.00 12/02/98 to 12/31/00 \$4,317,396.00 12/02/98 to 12/31/00 \$6,164,622.00 12/02/98 to 12/31/00 \$1,320,564.00 12/02/98 to 12/31/00 \$10,245,690.00 12/02/98 to 12/31/00 \$4,587,626.00	Barbara Noble BCW Division III Child Care Section (562) 908-6875

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CONTRACTS REQUIRING COMPLIANCE AUDITS DURING FISCAL YEAR 2000 - 2001

CONTRACT NAME AND NUMBER	BRIEF DESCRIPTION OF SERVICE	NUMBER OF CONTRACTS	CONTRACTOR NAMES	EXPIRATION DATE/AUDIT PERIOD/ CONTRACT AMOUNT	DPSS CONTACT PERSON/BUSINESS UNIT/TELEPHONE NUMBER
CalWORKs Stage 1 Child Care Contract (Cont'd.) (Contract Numbers are Listed with the Contractor Names)	Administration of CalWORKs Stage 1 Child Care	(Month-to Month extension in effect for three months effective 07/01/00. The 2 nd three month extension to be entered into 10/01/00 and will end 12/31/00.	Mexican American Opportunity Foundation #CW 98-06 Options #CW 98-01 Pomona Unified School District #CW 98-10	12/02/98 to 12/31/00 \$ 5,031,132.00 12/02/98 to 12/31/00 \$ 3,964,108.00 12/02/98 to 12/31/00 \$ 2,896,848.00	Barbara Noble CalWORKs Child Care Section (562) 908-6875
AFIRM Terminal Operators #71279	Provides skilled clerks to operate fingerprint terminals	1	PDQ Personnel 5900 Wilshire Blvd., #400 L.A., CA. 90038 Laura Cells (310-342-3777	03/10/99 03/26/99-12/31/00 \$ 1,760,683.00 (estimated)	Rudy Ornelas Contract Management Section I (562) 908-3033
Case Record Storage and Retrieval Services #71570	Provides case record storage and retrieval services	1	File Keepers, LLC 6277 E. Slauson Ave. Commerce, CA. 90040 Juan Avila (323) 728-3133 x313	07/01/98-06/30/01 \$ 3,330,000.00/fiscal year	Ruby Williams (562) 908-3004

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CONTRACTS REQUIRING COMPLIANCE AUDITS DURING FISCAL YEAR 2000 - 2001**

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CPR & First Aid Training by The American Red Cross #72850	Provides CPR and First Aid Training to DPSS Employees who volunteer to receive training.	1	American Red Cross	07/06/00 - 12/31/00 \$80,000.00	Linda James Staff Development Section (562) 903-5415
Substance Abuse/Mental Health Awareness Training Contract #71895	Provides training to DPSS public contact staff to work with and understand CalWORKs participants' mental health and substance abuse problems.	1	Mt. San Antonio College, Regional Health Occupations Resource Center	01/05/99 - 12/31/00 \$248,994.90	Janet Metters Staff Development Section (562) 903-5420

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Cal-Learn Case Management (Numbers listed with Contractor Names)	Provides intensive case management for Cal-Learn participants	5	#68033 AltaMed Health Services Corporation 500 Citadel Drive, Suite 490 Los Angeles, CA. 90040 Josh Valdez, Vice President (323) 889-7314 #68034 El Nido Family Centers 500 Shatto Place, Suite 425 L.A., CA. 90020 Emily Lloyd, Exec. Director (213) 384-1600 #68035 Foothill Family Service 118 S. Oak Knoll Avenue Pasadena, CA. Helen Moran-Wolf, Exec, Director (626) 795-6907	03/97 - 8/00 \$ 6, 212,937.50 03/97 - 8/00 \$ 8, 657,962.50 03/97 - 8/00 \$ 2,863,987.50	Yolanda Mingo (526) 908-4451 " "

WORK ORDER 5-68
CONTRACTS REQUIRING COMPLIANCE AUDITS DURING FISCAL YEAR 2000 - 2001

CONTRACT NAME AND NUMBER	BRIEF DESCRIPTION OF SERVICE	NUMBER OF CONTRACTS	CONTRACTOR NAMES	EXPIRATION DATE/AUDIT PERIOD/ CONTRACT AMOUNT	DPSS CONTACT PERSON/BUSINESS UNIT/TELEPHONE NUMBER
Cal-Learn Case Management (Numbers listed with Contractor Names)	Provides intensive case management for Cal-Learn participants	5	#68036 Children's Hospital of Los Angeles Division of Adolescent Medicine P.O. Box 54700 Mailstop 2 Los Angeles, CA. 90027 Susan Rabinovitz, Associate Director (323) 669-2503 #68037 Youth and Family Center 101 N. La Brea Avenue Suite 100 Inglewood, CA. 90301 Dorla Watson-Taylor, Interim Executive Director (310) 671-1222 x102	3/97 - 8/00 \$ 2, 246,867.50 3/97 - 8/00 \$ 3,399,550.00	Yolanda Mingo (562) 908-4451 "

April 15, 2002

Mr. Tyler McCauley
Los Angeles County, Auditor-Controller
and
Mr. Bryce Yokomizo, Director
Los Angeles County, Department of Public Social Services

In planning and performing our audit of the Schedules of Service Fees and Contract Reimbursements for contractors providing services related to the administration of contracts under various State Mandated Programs with the County of Los Angeles, Department of Public Social Services (DPSS) during the period from March 1996 through August 2001, we considered each individual contractor's internal controls over financial reporting, in order to determine our auditing procedures for the purpose of expressing our opinion on the various Schedules of Service Fees and Contract Reimbursements and not to provide assurances on internal control over financial reporting.

Our consideration of internal controls over financial reporting policies and procedures would not necessarily disclose all matters in internal controls over financial reporting that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the contractors' Schedules of Service Fees and Contract Reimbursements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal controls over financial reporting and its operation that we consider to be material weaknesses as defined above.

However, we noted certain immaterial matters involving the internal controls over financial reporting and contract operations and offer the following recommendations as suggestions for consideration by DPSS to strengthen its internal controls over financial reporting and to ensure compliance with government regulations.

(1) Time Frame For Submission Of Contract Invoices Should Be Amended

Current contract provisions require contractors to submit their contract invoices to DPSS within 15 days after the end of the reporting period. However, in order to prepare the invoices, contractors often require certain information from DPSS, such as GEARS data and participant caseload data, to prepare the invoices and reconcile the total number of participants served. During our audit, we noted that four contractors (CalWORKS) out of twenty-one contractors audited who were unable to submit their invoices in a timely manner. In each of these cases the contractors maintained that DPSS failed to provide or have available information needed by the contractor to prepare their respective invoices a timely manner.

Recommendation

For contracts where it is determined that information is not available by the 15th of the month on a regular basis, we recommend that provisions in those particular contracts be amended to allow more time for the contractors to prepare their invoices. In addition, we recommend that DPSS re-emphasize procedures to ensure that invoicing information be provided to the contractors within a reasonable time period in order for the contractors to submit invoices within the current contract provisions.

DPSS Response

We agree that for applicable contracts, amendments should be made. In addition, we plan to also release a contract memo by July 31, 2002, reemphasizing our existing policies and procedures.

(2) Adjustments To Contractors' Contract Invoices Should Be Sent To Contractors

DPSS will adjust the amount paid to the contractors if DPSS notes any errors or incorrectness in the calculation of the amount claimed on the contractor invoices. Letters stating the amount being adjusted and the reason(s) for the adjustments made are then sent together with the payment to the contractors. However, we noted isolated occurrences where DPSS adjusted the contractor submitted invoice amount but the contractors indicated that they were not informed as to why the amount invoiced was changed.

Recommendation

We recommend that DPSS re-emphasize procedures to ensure that contractors are informed about adjusted amounts and the reasons for the adjustments.

(2) Adjustments To Contractors' Contract Invoices Should Be Sent To Contractors,
(Continued)

DPSS Response

We plan to release a contract memo by July 31, 2002, reemphasizing our existing policies and procedures.

(3) Records Of Payments To Contractors Should Be Properly Maintained

DPSS is responsible for maintaining records of all payments made to the contractors. From the payment records we obtained from DPSS, we noted certain instances where the payment records were either incomplete or not available. In one instance a contractor (AltaMed Health Services Corporation) received a contract payment from DPSS, which was not reflected on the payment log. We also noted another instance where certain payment records for contract year 1997 could not be located for another contractor (Youth and Family Center). DPSS personnel indicated that the records in question had been sent to storage, however DPSS was only able to locate and provide some of the missing records requested during the course of our fieldwork.

Recommendation

We recommend that DPSS re-emphasize procedures that ensure all payments made to contractors be accurately recorded and that payment records are properly filed and retained for retrieval if needed.

DPSS Response

Due to space constraints, Fiscal Operations Section in-house storage only allows them to keep the current and one prior fiscal year's accounting records. All other records are housed at an off-site location. A log is maintained of the documents included in each box at the storage facility. In the one instance, the box which should have contained the information requested for Youth and Family Center, was empty. In the past, auditors were allowed to pull their own records from the storage facility. The Fiscal Operations Section has established a new policy that only Fiscal Operations staff will be allowed to retrieve documents from the off-site storage facility.

(4) Participant Database Should Be Updated Within A Reasonable Time Period

DPSS maintains a database of all current and non-current participants. When a participant terminates from the program or is no longer eligible for services, contractors will inform DPSS and DPSS will enter the information into the centralized database (i.e. GEARS). DPSS has the responsibility to update the participant's status within a timely manner, since only DPSS has the authority to confirm or deny a participant. Information in the database is also sent to the contractors every month for billing purposes. However, we noted situations where DPSS did not update the database in a timely manner. In one instance, DPSS had not properly updated the status of several participants until after the participants had terminated from the program for several months (AltaMed Health Services Corporation). The failure to update the participant database in a timely manner directly contributed to incorrect billings and payments to the contractor, as the database utilized for the billing indicated more eligible participants than actual.

Recommendation

We recommend that DPSS re-emphasize procedures that ensure that participant database be updated on a timely basis.

DPSS Response

We agree with the recommendation to reemphasize existing policy, but we disagree with the auditor's conclusions on the AltaMed Health Services Corporation contract. As you point out in the Management Letter, "only DPSS has the authority to confirm or deny a participant." This statement means that public employees, not contractors, are the staff allowed to take discretionary action. It appears that the auditors erroneously determined that contract payment ends when the contractor closes a Cal-Learn component. This alone does not constitute ineligibility or termination. Only DPSS staff can make the determination. Therefore, if there is a delay in taking discretionary action and deregistering a participant, there is no billing error. The contractors are entitled to payment until they are notified that deregistration or discretionary action has taken place.

(5) Controls Over Payments to Contractors Should Be Enhanced

DPSS has the responsibility to review each invoice submitted by the contractors to ensure that they are properly supported, complete and accurate, before making payments. However, we noted instances where DPSS:

(5) Controls Over Payments to Contractors Should Be Enhanced, (Continued)

1. Overpaid a contractor (i.e. Child Care Information Services – Pasadena, February 2000 invoice paid twice - \$34,245);
2. Underpaid a contractor (i.e. Youth and Family Center - \$963 related to the February and September 1998 invoices);
3. Failed to process a contractor invoice (Options, A Child Care and Human Services Agency, September 1999 invoice - \$5,885); and
4. Failed to apply or recover advance payments made to two contractors prior to the audit completion date (Child Care Information Services – Pasadena, February 1999 advance - \$88,765; and Pomona USD, Child Development Program, January 2001 advance - \$4,840).

Recommendation

We recommend that DPSS re-emphasize procedures that ensure all invoices received from contractors are reviewed for accuracy and completeness prior to payment and are processed in a timely manner.

DPSS Response

The Fiscal Operations Section will release a memo to the appropriate staff by June 30, 2002, to ensure that all accounting records related to contract payments are recorded in the appropriate contractor's ledger when a payment is generated. We plan to also release a contract memo by July 31, 2002, reemphasizing our existing policies and procedures.

(6) Annual Independent Audits of Contractors Should Be Required by DPSS

During our review we noted that a number of the contractors did not have annual audits performed by independent auditors. Annual independent audits would provide DPSS with a certain degree of comfort that contractor records and internal controls were adequate to safeguard DPSS funds and that the programs were properly being managed.

Recommendation

For contractors that have independent audits requirements, we recommend that DPSS follow-up on contract requirements and request that contractors submit audit reports (financial as well as single audits and any management letters issued as a by product of those audits), for review by DPSS monitors.

Mr. Tyler McCauley, Los Angeles County, Auditor-Controller
Mr. Bryce Yokomizo, Director, Los Angeles County,
Department of Public Social Services
April 15, 2002
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(6) Annual Independent Audits of Contractors Should Be Required by DPSS,
(Continued)

DPSS Response

We plan to release a contract memo by July 31, 2002, reemphasizing our existing policies and procedures.

This report is intended solely for the information and use of the County of Los Angeles Auditor-Controller and the management of DPSS. and is not intended to be and should not be used by anyone other than the specified party.

Very truly yours,

Conrad And Associates, L.L.P.

CONRAD AND ASSOCIATES, L.L.P.