



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

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July 28, 2009

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **VERDUGO MENTAL HEALTH CENTER CONTRACT REVIEW – A  
DEPARTMENT OF MENTAL HEALTH SERVICE PROVIDER**

We completed a program and fiscal contract compliance review of Verdugo Mental Health Center (Verdugo or Agency), a Department of Mental Health (DMH) service provider.

**Background**

DMH contracts with Verdugo, a private non-profit community-based organization that provides services to clients in Service Planning Area 2. 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.

DMH paid Verdugo on a cost reimbursement basis between \$2.02 and \$4.82 per minute of staff time (\$121.20 to \$289.20 per hour) for services or approximately \$5 million for Fiscal Year 2007-08.

**Purpose/Methodology**

The purpose of our review was to determine whether Verdugo complied with its contract terms and appropriately accounted for and spent DMH program 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 Agency staff.

### **Results of Review**

Verdugo maintained documentation to support the mental health services billed and staff assigned to the County contract possessed the required qualifications. In addition, the Agency adequately allocated shared costs. However, the Agency did not always comply with the County contract requirements. Specifically, Verdugo:

- Did not complete some elements of the Client Care Plans, Progress Notes and Informed Consent in accordance with the County contract requirements.
- Did not perform criminal clearances for the 17 employees working on the DMH program. The County contract requires agencies to perform criminal clearances on all staff working on the DMH program.

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 Verdugo management and DMH. In their attached response, the Agency concurred with our findings and recommendations.

We thank Verdugo 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 (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer  
Dr. Marvin J. Southard, Director, Department of Mental Health  
Lieutenant Carl Povilaitis, Chairman, Board of Directors, Verdugo Mental Health  
Dr. William J. Smith, Chief Executive Director, Verdugo Mental Health  
Public Information Office  
Audit Committee

**DEPARTMENT OF MENTAL HEALTH  
VERDUGO MENTAL HEALTH CENTER  
FISCAL YEAR 2008-09**

**BILLED SERVICES**

**Objective**

Determine whether Verdugo Mental Health Center (Verdugo 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 2,322 minutes from 178,893 service minutes of approved Medi-Cal billings for September and October 2008. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 2,322 minutes represent services provided to 20 program participants.

**Results**

Verdugo maintained documentation to support the billed service minutes and completed the Assessments in accordance with the County contract. However, the Agency did not complete some elements of the Client Care Plans, Progress Notes and Informed Consent in accordance with the County contract requirements.

**Client Care Plans**

- Verdugo did not complete the Client Care Plans for three (15%) of 20 clients sampled in accordance with the County contract. Specifically, the Client Care Plans contained goals that were not observable and/or quantifiable. This finding was also noted in our prior monitoring review.

**Progress Notes**

The Agency did not complete six (15%) of the 40 Progress Notes in accordance with the County contract. Specifically:

- Four Progress Notes for mental health services did not describe what the clients or service staff attempted and/or accomplished towards the clients' goals.
- Two Progress Notes for the Crisis Intervention Services did not describe why the conditions required more timely responses than the regularly scheduled visits.

**Informed Consent**

Verdugo did not document the Informed Consent for two (25%) of eight clients' charts sampled, in which the clients received treatment with psychotropic medication. Informed Consent is the client's agreement to a proposed course of treatment based on receiving clear, understandable information about the treatments' potential benefits and risks.

**Recommendations**

**Verdugo management:**

- 1. Ensure that Client Care Plans and Progress Notes are completed in accordance with the County contract.**
- 2. Ensure that Informed Consent is obtained and documented in the client's chart on an annual basis.**

**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.

**Recommendation**

**None.**

**STAFFING QUALIFICATIONS**

**Objective**

Determine whether Verdugo'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 18 of the 82 Verdugo treatment staff who provided services to DMH clients during September and October 2008.

**Results**

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

**Recommendation**

**None.**

**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 there are adequate controls over cash and other liquid assets.

**Verification**

We interviewed Verdugo management and reviewed the Agency's financial records. We also reviewed the Agency's December 2008 bank reconciliations for two bank accounts.

**Results**

Verdugo maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner.

**Recommendation**

**None.**

**COST ALLOCATION PLAN**

**Objective**

Determine whether Verdugo'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 and selected a sample of expenditures to ensure that expenditures were appropriately allocated to the Agency's programs.

**Results**

Verdugo prepared its Cost Allocation Plan in compliance with the County contract and appropriately allocated the Agency's expenditures.

**Recommendation**

None.

**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 to support 47 non-payroll expenditure transactions totaling \$98,464 charged to the DMH program between September 2007 and December 2008.

**Results**

Verdugo's expenditures were allowable, properly documented and accurately billed.

**Recommendation**

None.

**FIXED ASSETS**

**Objective**

Determine whether fixed assets depreciation costs charged to DMH were allowable under the County contract, properly documented and accurately billed.

**Verification**

We interviewed staff and reviewed the Agency's financial records related to fixed assets. In addition, we reviewed six items with depreciation costs of \$39,636 that the Agency charged to the DMH program in August 2008.

**Results**

The depreciation costs charged to DMH were allowable, properly documented and accurately billed.

**Recommendation**

None.

**PAYROLL AND PERSONNEL**

**Objective**

Determine whether payroll expenditures were appropriately charged to the DMH program. In addition, determine whether personnel files are maintained as required.

**Verification**

We traced the payroll expenditures for 17 employees totaling \$31,658 to the payroll records and time reports for the pay period ending December 31, 2008. We also interviewed seven employees and reviewed personnel files for 17 employees.

**Results**

Verdugo's payroll expenditures were appropriately charged to the DMH Program. However, none of the 17 personnel files contained documentation that the Agency performed criminal clearances for their employees. The County contract requires agencies to perform criminal clearances on all staff working on the DMH program.

**Recommendation**

- 3. Verdugo management ensure that criminal clearances are performed for all staff working on the County contract and maintained on file.**

**COST REPORT**

**Objective**

Determine whether Verdugo's Fiscal Year (FY) 2007-08 Cost Report reconciled to the Agency's financial records.

**Verification**

We traced the Agency's FY 2007-08 Cost Report to the Agency's general ledger.

**Results**

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

**Recommendation**

None.

**PRIOR YEAR FOLLOW-UP****Objective**

Determine the status of the recommendations reported in the prior monitoring review completed by the Auditor-Controller.

**Verification**

We verified whether the outstanding recommendations from FY 2005-06 monitoring review were implemented. The report was issued on October 20, 2006.

**Results**

The prior monitoring report contained four recommendations. Verdugo implemented three recommendations. As previously indicated, the finding related to recommendation one contained in the report was also noted during the prior monitoring review.

**Recommendation**

4. Verdugo management implement the outstanding recommendation from FY 2005-06 monitoring report.



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July 20, 2009

Ms. Wendy L. Watanabe  
Auditor-Controller  
County of Los Angeles  
Department of Auditor-Controller  
Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 525  
Los Angeles, CA 90012-3873

Dear Ms. Watanabe:

This letter is in response to your June 16, 2009 contract compliance review report of our implementation of the County DMH contract. I am providing details on the five recommendations contained in the report, as corrective actions.

**Recommendation 1:** Ensure that Client Care Plans and Progress Notes are completed in accordance with the County contract.

CAP: The agency's senior management will provide ongoing trainings for all clinical staff on documentation standards for Progress Notes and Client Care Plans to ensure 100% compliance with all DMH standards. Specific training will be provided to all clinical staff on the new Client Care Coordination Plan. Supervisors and Program Directors will continue to review all Client Care Plans and Progress Notes. Client Care Plans and Progress Notes will continue to be reviewed during monthly chart audits (Quality Assurance process with a specific committee which reviews at least 10 random charts on a monthly basis.)

**Recommendation 2:** Ensure that Informed Consent is obtained and documented in the client's chart on an annual basis.

CAP: The process for Informed Consent will be reviewed with all Clinical Staff, with the senior management team assuring timely retraining. Informed Consent will be obtained and documented when the annual assessment is completed for each client. Each program will monitor and review charts to ensure 100% compliance. Each Program Director will be responsible for these actions. Timely completion of Informed Consent will be reviewed during monthly charting audits as well (Quality

Wendy L. Watanabe, Auditor-Controller  
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Assurance process with a specific committee which reviews at least 10 random charts on a monthly basis.)

Recommendation 3: Ensure that criminal clearances are performed for all staff working on the County contract and maintained on file.

CAP: The Director of Human Resources will implement the process of obtaining criminal clearances for all staff working on the County DMH contract. Part of the annual performance review of each person working on the County contract will include verifying the clearance is in the staff person's HR file.

Recommendation 4: Verdugo management implement the outstanding recommendation from FY 2005-06 monitoring report.

CAP: Per exit interview discussion, the agency's management will implement the outstanding recommendation.

On behalf of all of our staff involved in the review, thank you to your staff for their professionalism and courtesy during their visit to our agency.

Please contact me if additional information is necessary. We wish to serve our clients via the County DMH contract with the utmost integrity while respecting County's protocols, policies, and procedures.

Sincerely,



William J. Smith, Psy.D., MBA  
CEO