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November 7, 2011

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

FROM: Wendy L. Watanabe
Auditor-Controller

Wendy L Watanabe
by Schneiderman

SUBJECT: **PROTOTYPES, CENTERS FOR INNOVATION IN HEALTH, MENTAL HEALTH AND SOCIAL SERVICES – A DEPARTMENT OF PUBLIC SOCIAL SERVICES DOMESTIC VIOLENCE SUPPORTIVE SERVICES PROGRAM PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a review of Prototypes, Centers for Innovation in Health, Mental Health and Social Services (Prototypes or Agency), a Department of Public Social Services (DPSS) Domestic Violence Supportive Services (DVSS) Program provider. Our review covered a sample of transactions from Fiscal Years (FYs) 2009-10 and 2010-11. DPSS contracts with Prototypes, a non-profit organization, to provide services to eligible participants who have been victims of domestic violence. DVSS Program services include performing assessments, facilitating shelter assistance, and providing legal assistance to the victims.

The purpose of our review was to determine whether Prototypes appropriately accounted for and spent DVSS Program funds to provide the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with their contract and the applicable guidelines.

DPSS paid the Agency approximately $734,000 on a cost-reimbursement basis during FY 2010-11. Prototypes provides services to residents of the First and Second Supervisorial Districts.

Results of Review

Prototypes provided services to individuals who met DVSS Program eligibility requirements, and their staff had the required qualifications. In addition, Prototypes maintained adequate internal controls. However, Prototypes did not always comply with all of the County contract requirements. Specifically, Prototypes:

- Overbilled DPSS $3,417 for FY 2010-11 non-payroll expenditures that were not reasonable and necessary for the DVSS Program.

  Prototypes' attached response indicates that they will repay DPSS the $3,417 in questioned costs, and will ensure non-payroll expenditures are allowable and properly documented. However, Prototypes also needs to review and reallocate all shared non-payroll expenditures charged during FY 2010-11, provide DPSS with supporting documentation, and repay any overbilled amounts.

- Did not have documentation to support $6,488 in non-payroll expenditures from FY 2009-10, and inappropriately allocated the expenditures using rates that were based on estimates, instead of actual conditions.

  Prototypes' attached response indicates that they provided documentation to support the non-payroll expenditure, and agreed to repay a portion of the expenditure based on their revised calculations. However, the documentation the Agency provided did not adequately support the non-payroll expenditures and their revised calculation. Prototypes needs to review and reallocate the $6,488 in non-payroll expenditures from FY 2009-10, provide DPSS with supporting documentation, and repay any overbilled amounts.

- Inappropriately allocated $14,603 in payroll costs to the DVSS Program using rates that were based on estimates, instead of actual hours worked.

  Prototypes' attached response claims that they allocated payroll costs based on actual hours worked. However, the Agency does not have documentation that the costs were allocated based on actual hours worked. Our review indicates that the allocations were based on supervisors' estimates of the time their staff worked on the Program. The Agency needs to reallocate all payroll costs charged to the Program during the contract term based on the actual hours worked, provide DPSS with supporting documentation, and repay any overbilled amounts.

- Does not have a Cost Allocation Plan.

  Prototypes' attached response indicates that they will develop a Cost Allocation Plan in compliance with the County contract.

- Has not returned $766 in unspent revenue to DPSS.

  Prototypes' attached response indicates that they will repay DPSS for the unspent revenue.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Prototypes and DPSS in July 2011. As noted above, Prototypes disagreed with some of our findings and recommendations. The Agency's response is attached. DPSS indicated that they will work with Prototypes to ensure that the recommendations are implemented, and any disallowed costs and overpayments are recovered.

We thank Prototypes 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:JLS:DC:AA

Attachment

c: William T Fujioka, Chief Executive Officer
Sheryl L. Spiller, Acting Director, Department of Public Social Services
Karen E. Pointer, Board Chairperson, Prototypes
Cassandra Loch, President & CEO, Prototypes
Public Information Office
Audit Committee

PROTOTYPES, CENTERS FOR INNOVATION IN HEALTH, MENTAL HEALTH AND SOCIAL SERVICES DOMESTIC VIOLENCE SUPPORTIVE SERVICES PROGRAM FISCAL YEARS 2009-10 and 2010-11

ELIGIBILITY

Objective

Determine whether Prototypes, Centers for Innovation In Health, Mental Health and Social Services (Prototypes or Agency), provided services to individuals who met the Domestic Violence Supportive Services (DVSS) Program eligibility requirements.

Verification

We reviewed the case files for 15 (14%) of the 109 participants, who received services during July and August 2010, for documentation to confirm their eligibility for DVSS Program services.

Results

Prototypes had documentation of the 15 participants' eligibility for DVSS Program services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether Prototypes provided the services according to the County contract and DVSS Program guidelines. In addition, determine whether the Program participants received the billed services.

Verification

We visited both of Prototypes' service sites, and reviewed the case files for 15 (14%) of the 109 participants who received services during July and August 2010.

Results

Prototypes provided the services in accordance with the County contract.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine whether Prototypes' staff had the qualifications required by the County contract.

Verification

We reviewed the personnel files for eight (53%) of Prototypes' 15 employees who worked on the DVSS Program.

Results

Prototypes' staff had the required qualifications.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether Prototypes recorded revenue in the Agency's financial records properly, and deposited cash receipts in the Agency's bank account timely.

Verification

We interviewed Prototypes management, and reviewed the Agency's financial records and September 2010 bank reconciliation.

Results

Prototypes recorded revenue properly, and deposited cash receipts timely. However, the Agency did not resolve outstanding checks timely. Specifically, the Agency could not account for five checks, totaling $2,134, that had been outstanding for over six months.

Recommendation

1. **Prototypes management resolve outstanding checks timely.**

EXPENDITURES/PROCUREMENT

Objective

Determine whether expenditures charged to the DVSS Program were allowable under the County contract, properly documented, and accurately billed.

Verification

We interviewed Prototypes' personnel, and reviewed financial records and documentation for $13,207 in non-payroll expenditures that the Agency charged to the DVSS Program from July through September 2010.

Results

Prototypes inappropriately billed DPSS for $2,086 (16%) of the $13,207 non-payroll expenditures reviewed. Specifically, Prototypes:

- Billed DPSS $1,911 for telephone expenditures from July through September 2010 that were not reasonable and necessary for the DVSS Program.

- Billed DPSS $175 in overpayments to two consultants. Specifically, Prototypes overpaid two consultants, but billed the amounts to DPSS, instead of recouping the overpayments from the consultants.

We expanded our review to include an additional $7,819 in Fiscal Year (FY) 2009-10 non-payroll expenditures, and noted that all $7,819 was unallowable because they were not necessary or properly supported. Specifically, Prototypes:

- Allocated $6,488 in non-payroll expenditures to the DVSS Program based on estimates, instead of developing and using allocation rates based on actual conditions (e.g., actual staff salaries, etc.) as required.

- Billed DPSS $1,331 for telephone charges during FY 2009-10 that were not reasonable and necessary for the DVSS Program.

Recommendations

Prototypes management:

2. **Repay DPSS $3,417 ($2,086 + $1,331), and ensure that non-payroll expenditures are supported by detailed documentation and are allowable.**

3. **Review and reallocate all shared non-payroll expenditures charged during FY 2010-11, and the $6,488 non-payroll expenditures from FY**

2009-10, provide DPSS with supporting documentation, and repay any overbilled amounts.

PAYROLL AND PERSONNEL

Objective

Determine whether Prototypes charged payroll costs to the DVSS Program appropriately. Also, determine whether Prototypes obtained required criminal background clearances and employment eligibility for DVSS Program employees.

Verification

We traced the payroll costs for eight employees, totaling $28,265, for September 2010 to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for eight DVSS Program staff.

Results

Prototypes inappropriately allocated $3,554 (13%) of the $28,265 in payroll costs to the DVSS Program for the two employees in our sample who worked on County and non-County programs. Specifically, Prototypes allocated the employees' salaries based on estimates, instead of actual hours worked. As a result, we expanded our review to four additional employees who worked on County and non-County programs during September 2010, and noted Prototypes inappropriately allocated an additional $11,049 in payroll expenditures to the DVSS Program based on estimates.

Prototypes obtained required background clearances and employment eligibility for DVSS Program staff.

Recommendations

Prototypes management:

4. **Review and reallocate all payroll costs charged during the contract term based on the actual hours worked, provide DPSS with supporting documentation, and repay any overbilled amounts.**

5. **Allocate payroll costs based on the actual hours worked, and maintain supporting documentation.**

COST ALLOCATION PLAN

Objective

Determine whether Prototypes' Cost Allocation Plan was prepared in compliance with their County contract, and was used to appropriately allocate shared costs.

Verification

We requested the Agency's Cost Allocation Plan, and a sample of expenditures for FY 2009-10.

Results

Prototypes does not have a Cost Allocation Plan as required in the County contract, resulting in the inappropriate cost allocations discussed above.

Recommendation

6. **Prototypes management develop a Cost Allocation Plan that complies with the County contract.**

CLOSE-OUT REVIEW

Objective

Determine whether Prototypes had any unspent revenue during FY 2009-10 that may need to be repaid to DPSS.

Verification

We traced the total revenues and expenditures from Prototypes' FY 2009-10 close-out report to the Agency's accounting records, and to DPSS' payment records.

Results

During FY 2009-10, DPSS paid Prototypes $712,095 and the Agency's expenditures totaled $711,329, resulting in $766 in unspent revenue that the Agency should have returned to DPSS.

Recommendation

7. **Prototypes management repay DPSS $766.**

August 9, 2011

Wendy Watanabe, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, CA 90071

Dear Ms. Watanabe:

Please find Prototypes' responses in bold below to the draft audit report.

Objective

Determine whether Prototypes had adequate controls to ensure cash receipts and revenue were recorded in the Agency's financial records and were deposited in their bank account timely.

Recommendation

1. Prototypes management resolve outstanding checks timely.

Response

Prototypes will ensure all outstanding checks are resolved in a timely manner and place stop orders on all payments outstanding for a period of 180 days from the date of issue, as consistent with Prototypes policy.

Objective

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

Recommendation

2. Repay DPSS $3,417 and ensure that non-payroll expenditures are supported by detailed documentation and are allowable.

Response

Prototypes agrees to repay DPSS $3,417 and ensure all non-payroll expenditures are supported by detailed documentation and are allowable.

3. Review and reallocate all shared non-payroll expenditures charged during FY 2010-11 and the $6,488 non-payroll expense from FY 2009-10, provide DPSS with supporting documentation, and repay any overbilled amounts.

Response

Documentation to support $6,488 in non-payroll expenses in FY 2009-10 was provided during the audit and will be provided to DPSS upon request. Expenditures were allocated based on budgeted FTEs rather than actual FTEs, as Prototypes determined the difference to be immaterial. However, Prototypes agrees to repay the percentage difference of budgeted salaries versus actual salaries for each contract detailed as follows:

$1,577.23 x (1- ($255,372/$266,787)) = $67
$4,910.56 x (1-($259,947/$278,166)) = $322

Prototypes will ensure all shared non-payroll expenses are appropriately allocated.

Objective

Determine whether Prototypes charged payroll costs to the DVSS Program appropriately. In addition, determine whether Prototypes obtained criminal background clearances and verified employment eligibility for DVSS Program employees.

Recommendations

Prototypes management:

4. Review and reallocate all payroll costs charged during the contract term based on the actual hours worked, provide DPSS with supporting documentation and repay any overbilled amounts.

Response

As detailed during the audit and again in July 2011, Prototypes allocates payroll costs based on actual hours worked. This is a common practice that has been accepted for many years through multiple audits of various contracts. The PAFs, which were provided during the audit, detail allocations for each employee. PAFs are reviewed periodically by management to ensure allocations accurately reflect actual time and effort for each staff member. The allocations were determined to be reasonably accurate reflections of actual time and effort spent working on the DPSS contracts.

5. Allocate payroll costs based on the actual hours worked and maintain supporting documentation.

Response

Prototypes allocates payroll costs based on actual hours worked. Supporting documentation is maintained on file.

Objective

Determine whether Prototypes' Cost Allocation Plan was prepared in compliance with their County contract and was used to appropriately allocate shared program costs.

Recommendation

6. Prototypes management develop a Cost Allocation Plan that complies with the County contract.

Response

Prototypes will provide DPSS a cost allocation plan that complies with the contract.

Objective

Determine whether Prototypes' FY 2009-10 payments reconciled to the Agency's accounting records.

Recommendation

7. Prototypes management repay DPSS $766.

Response

Prototypes agrees to repay DPSS $766 in unspent revenue during FY 2009-10.

Should you have any questions or require additional information, please contact Levi Martin, Controller at lmartin@prototypes.org or (213) 542-3847.

Sincerely,

Cassandra Loch, LCSW, MBA
President and Chief Executive Officer

cc: Jim Quinn
Levi Martin
Alice Kuchinskas
Raheya Sen