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DEPARTMENT OF AUDITOR-CONTROLLER

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December 2, 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

SUBJECT: **LOS ANGELES GAY AND LESBIAN COMMUNITY SERVICES CENTER - A DEPARTMENT OF PUBLIC HEALTH HIV/AIDS CARE AND PREVENTION SERVICE PROVIDER - FISCAL REVIEW**

We completed a fiscal review of Los Angeles Gay and Lesbian Community Services Center (LAGLC or Agency), a Department of Public Health (DPH) HIV/AIDS care and prevention service provider. Our review covered a sample of transactions from Fiscal Years (FYs) 2009-10 and 2010-11. The purpose of our review was to determine whether LAGLC provided services to eligible clients, and spent funds in accordance with their County contract.

We also evaluated the adequacy of LAGLC's accounting records, internal controls, and compliance with the contract and other applicable guidelines. LAGLC contract services included HIV/AIDS medical outpatient, resistance testing, medical specialty, psychiatric, mental health, and risk reduction outreach services funded by the Office of AIDS Programs and Policy (OAPP). LAGLC provided services in the First, Second, Third, and Fourth Supervisorial Districts.

At the time of our review, LAGLC had two fee-for-service and four cost-reimbursement contracts with OAPP, and was paid approximately $3,874,000 during FY 2010-11.

Results of Review

LAGLC provided services to clients who met the OAPP eligibility requirements, and maintained the required personnel records. LAGLC also properly recorded and

deposited OAPP payments. However, the Agency billed OAPP $14,845 in questioned costs, and did not comply with all County contract requirements. Specifically, LAGLC:

- Overcharged OAPP $2,844 in shared expenditures.

  At our exit meeting, Agency management indicated that they agree with our finding, and will repay OAPP the $2,844 in questioned costs.

- Did not provide sufficient documentation for program incentives, totaling $7,816.

  LAGLC's attached response indicates that they invoice OAPP for the incentives they actually distributed to clients during the contract period. However, at our exit meeting, LAGLC indicated that they will repay OAPP the $7,816 in questioned costs.

- Charged OAPP $2,160 for payroll that was not supported by an employee's activity report.

  LAGLC's attached response indicates that they are revising the employee time study reports and client flow analysis to strengthen its controls over the allocation of personnel expenditures. In addition, at our exit meeting, LAGLC indicated that they will repay OAPP the $2,160 in questioned costs.

- Charged OAPP $2,025 in undocumented expenditures.

  LAGLC's attached response indicates that they have implemented additional internal controls to ensure they have the appropriate invoices for all charges. In addition, at our exit meeting, LAGLC indicated that they will repay OAPP the $2,025 in questioned costs.

- Billed OAPP for salaries based on budgeted estimates, not actual time spent by employees on OAPP-related activities as required.

  LAGLC's attached response indicates that they are revising the employee time study reports and client flow analysis to strengthen the documentation of allocated payroll expenditures.

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

Review of Report

We discussed our report with LAGLC and OAPP on September 7, 2011. At the exit meeting, LAGLC agreed to repay OAPP all of the $14,845 in questioned costs identified in our review. In their attached response, LAGLC describes the actions they have taken to, or plan to take, to address the recommendations in our report.

We thank LAGLC management for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JLS:DC:EB:mm

Attachment

c: William T Fujioka, Chief Executive Officer
Jonathan E. Fielding, M.D., Director, Department of Public Health
Lorri L. Jean, Esq. Chief Executive Officer, LAGLC
Michael J. Holtzman, Chief Financial Officer, LAGLC
Public Information Office
Audit Committee

LOS ANGELES GAY AND LESBIAN COMMUNITY SERVICES CENTER
HIV/AIDS CARE AND PREVENTION SERVICES
FISCAL REVIEW
JUNE 2009 TO NOVEMBER 2010

ELIGIBILITY/SERVICES BILLED

Objective

Determine whether the Los Angeles Gay and Lesbian Community Services Center (LAGLC or Agency) provided services to clients who met the eligibility requirements of the Department of Public Health's (DPH) Office of AIDS Programs and Policy (OAPP) Program.

Verification

We reviewed the case files for 16 clients who received services from June 2009 to November 2010, to confirm their eligibility to receive OAPP services. We also compared 18 HIV testing service units the Agency billed OAPP to the supporting documentation.

Results

LAGLC maintained documentation to support the eligibility for the 16 clients reviewed, and the 18 HIV testing service units billed were supported by appropriate documentation.

Recommendation

None.

CASH/REVENUE

Objective

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

Verification

We interviewed LAGLC's personnel, and reviewed the Agency's financial records. We also reviewed the Agency's bank reconciliation for October 2010.

Results

LAGLC deposited cash timely, and recorded revenue properly.

Recommendation

None.

COST ALLOCATION PLAN

Objective

Determine whether the Agency prepared its Cost Allocation Plan in compliance with the County contract, and used it to allocate shared costs appropriately.

Verification

We reviewed LAGLC's Cost Allocation Plan and accounting records to ensure shared costs were allocated appropriately.

Results

LAGLC's written Cost Allocation Plan was appropriate. However, LAGLC did not use the Cost Allocation Plan to allocate shared expenditures among multiple contracts/funding sources for their Medical Outpatient Program. Instead, the Agency billed OAPP 100% for medical/office supplies, computer maintenance, telephone call center, and waste removal expenditures. From June 2009 to February 2010, LAGLC charged OAPP a total of $123,004 in shared costs, but was paid $113,120. LAGLC needs to allocate their shared program expenditures in accordance with their Cost Allocation Plan, and repay OAPP for any overbilled amounts.

After our review, LAGLC reallocated the shared expenditures, reducing the amount they overbilled OAPP to $2,844.

Recommendation

1. **LAGLC management repay OAPP $2,844.**

EXPENDITURES

Objective

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

Verification

We interviewed Agency personnel, and reviewed financial records and documentation to support 27 non-payroll OAPP expenditure transactions, totaling $120,545, from June 2009 to June 2010.

Results

LAGLC did not maintain sufficient documentation to support $13,073 of the expenditures reviewed. Specifically, LAGLC billed OAPP:

- $7,816 for incentives purchased at the end of the contract period. The Agency did not provide any documentation to show that the incentives were used or benefited the OAPP Program.

- $2,500 for a contract physician payment that was not adequately supported. The $2,500 represents hours on the contractor's invoice. However, the invoice did not contain any indication that the contractor's services were related to the OAPP Program. After our review, the Agency provided documentation to support the $2,500.

- $2,025 for incentives that were not supported by invoices or receipts.

- $732 for an employee's unsupported travel expenditures. After our review, the Agency provided documentation to support the $732.

In addition, payments to four contract physicians were not supported by service agreements, and two additional contract physicians had service agreements that expired in August 2008 and February 2009, respectively. We verified that the services provided by the physicians were related to the OAPP Program. However, the County contract requires services by independent contractors to be supported by service agreements.

After our review, LAGLC provided additional documentation to reduce the questioned costs to $9,841 ($7,816+$2,025).

Recommendations

LAGLC management:

2. **Repay DPH $9,841.**

3. **Maintain documentation to support Program expenditures.**

4. **Ensure independent contractor payments are supported by service agreements which indicate the scope of the service, deliverables, the number of hours to be worked, and the agreed-upon rate of compensation.**

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the OAPP Program. In addition, determine whether the Agency maintained personnel files as required.

Verification

We traced payroll expenditures, totaling $57,253, for ten employees for January 2010 to payroll records and time reports. We also reviewed ten employee personnel files.

Results

LAGLC's payroll expenditures were not in compliance with the County contract. Specifically, LAGLC billed OAPP:

- Payroll costs for the Medical Outpatient Program based on budget, instead of actual time worked by employees. However, based on documentation provided by the Agency, using budget resulted in insignificant differences.

- $2,160 in salary costs for one employee that was not supported by the employee's activity report. The employee provided services to both OAPP and non-OAPP clients.

Recommendations

LAGLC management:

5. **Repay DPH $2,160, or provide adequate documentation to support the expenditure.**

6. **Bill OAPP for payroll expenditures based on the actual distribution of employee activities, and maintain supporting documentation.**

COST REPORTS

Objective

Determine whether the Agency's Cost Reports reconcile to the Agency's accounting records.

Verification

We traced the Agency's Cost Reports for December 2009, February 2010, and June 2010 to the Agency's accounting records.

Results

LAGLC's Cost Reports reconciled to their accounting records.

Recommendation

None.

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October 11, 2011

Ms. Wendy Watanabe
Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, California 90012-3873

Dear Ms. Watanabe:

This letter is in response to your memo dated September 30, 2011, to the Los Angeles County Board of Supervisors related to The Los Angeles Gay and Lesbian Community Services Center (LAGLC) Contracts Review—A Department of Public Health HIV/AIDS Care and Prevention Services Provider.

COST ALLOCATION PLAN

1. **Recommendation.** LAGLC management repay OAPP $2,844 in over billings.

Response. In the audit, the Cost Allocation Plan developed by LAGLC was determined to be appropriate. For allocated costs, including supplies general, LAGLC has historically performed the allocation of functional expenses down to the grant level on an annual basis at the end of each fiscal year due to the complexity and the resources required to perform the allocation. As a result, LAGLC invoiced the approved budgeted amount of allocated costs. Historically, the allocated amounts were usually in excess of the billed contract amounts, so there was not a problem. However, in the period under audit, OAPP was overcharged supplies general costs ($2,844) to the Ambulatory Medical Outpatient Services Contract number H209013 Schedule 66. LAGLC has implemented a new process to allocate costs at the end of the contract year instead of LAGLC's fiscal year to ensure proper billings.

In reviewing the Cost Report that was submitted for the 2009-2010 review period, LAGLC management noted that the amount included for Total Other (Facilities Repair/Maintenance & Security) Costs to the Ambulatory Medical Outpatient Services Contract number H209013 Schedule 66 was $281,221. LAGLC received reimbursement from OAPP for $109,304.

Given the dramatic difference between what was incurred by LAGLC and what was reimbursed by OAPP, which was $171,917, LAGLC requests that the total amount of $2,844 over billed on the supplies general line item cost be forgiven.

EXPENDITURES

2. **Recommendation.** Repay OAPP $9,841.
3. **Recommendation.** Maintain supporting documentation to support program expenditures.

Response. This finding consists of $2,025 for incentives that were not supported by invoices or receipts to the Ambulatory Medical Outpatient Services Contract number H209013 Schedule 66, and $7,816 is related to incentives purchased toward the end of the contract period for Positive Images (PI) Contract PH001044 Schedule 1.

Of the $2,025 related to participant incentives that were not supported by invoices or receipts, we could not find the proper support for the expenditures. Since the audit, additional internal controls have been implemented to ensure LAGLC has the appropriately supported invoices for all charges.

Of the $7,816 related to participant incentives purchased toward the end of the contract period for Positive Images (PI) contract PH001044 Schedule 1, LAGLC management believes the expenditures were reasonable, allowable and made in good faith in support of the appropriate OAPP program scopes of work. However, given the timing of purchase, all of the program incentives were not distributed to clients. It was LAGLC's intention to use those incentives in the following contract period.

Since the audit, additional internal controls have been implemented. LAGLC will be purchasing incentives in advance and invoicing OAPP for the incentives actually given out to clients in the proper contract period.

4. **Recommendation.** Ensure independent contractor payments are supported by service agreements which indicates the scope of the service, deliverables, the number of hours to be worked and the agreed upon rate of compensation.

LAGLC has strengthened its controls for contractor agreements to ensure that independent contractor payments are supported by service agreements that indicate the scope of the services, deliverables, the number of hours to be worked and the agreed upon rate of compensation.

PAYROLL AND PERSONNEL

5. **Recommendation.** Repay OAPP $2,160 or provide documentation to support the expenditures.
6. **Recommendation.** Bill OAPP for payroll expenditures based on the actual distribution of employee activities and main supporting documentation.

Response. The audit finding related to $2,160 was not supported by a current Employee's Activity Time Study report for the January 2010 payroll for Dr. Robert Holloway for the Mental Health Services Psychiatry Contract number H209013 Schedule 69.

LAGLC is currently revising the employee time studies reports and client flow analysis to strengthen its controls over the allocation of personnel expenditures on grants.

In reviewing the Cost Report that was submitted for the 2009-2010 review period, LAGLC management noted that the amount included for Total Indirect Cost to the Mental Health Services Psychiatry Contract number H209013 Schedule 69 was $13,254, but due to the limitation by OAPP of 15% of total personnel expenses, the amount allowable for reimbursement by OAPP was $5,769. LAGLC received reimbursement from OAPP for $0.

Given the $5,769 difference between what was incurred by LAGLC and what was reimbursed by OAPP, LAGLC requests that the total amount of $2,160 over billed on the personnel line item cost be forgiven on the Mental Health Services Psychiatry Contract number H209013 Schedule 69.

LAGLC management is appreciative of the level of professionalism exhibited by the Department of Auditor-Controller.

If you have any questions, please call me at 323-993-7615. We look forward to hearing your response.

Very truly yours,

Michael J. Holtzman
Chief Financial Officer