COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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December 9, 2011

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **PACIFIC CLINICS – A DEPARTMENT OF PUBLIC HEALTH AND MENTAL HEALTH CONTRACT SERVICES PROVIDER – CONTRACT COMPLIANCE REVIEW – FISCAL YEARS 2009-10 AND 2010-11**

We completed a contract compliance review of Pacific Clinics (or Agency). Our review covered a sample of transactions from Fiscal Years (FY) 2009-10 and 2010-11. The Department of Public Health (DPH) contracts with the Pacific Clinics for the Agency to provide Substance Abuse Prevention and Control (SAPC) services. The Agency also contracts with the Department of Mental Health (DMH) to provide mental health services, including interviewing Program clients, assessing their mental health needs, and implementing treatment plans.

The purpose of our review was to determine whether Pacific Clinics provided the contracted services to eligible clients, the appropriateness of the services provided based on available documentation, and the adequacy of the Agency's accounting records, internal controls, and compliance with federal, State, and County guidelines.

At the time of our review, DPH SAPC had three fee-for-service contracts and two cost reimbursement contracts with Pacific Clinics, and paid the Agency approximately $1.2 million from July 2009 to January 2011. DMH had two cost-reimbursement contracts with Pacific Clinics, and paid them approximately $116.7 million from July 2009 to February 2011. Pacific Clinics provides SAPC services in the First and Fifth Supervisorial Districts, and provides DMH services to clients in the First, Second, Fourth, and Fifth Supervisorial Districts.

Results of Review

DMH Program Review

- Pacific Clinics billed DMH for services to an ineligible client, resulting in $856 in questioned costs.

  Pacific Clinics' attached response indicates that they disagree with this finding and our recommendation that they repay DMH $856. DMH indicated that they will work with the Agency to resolve this issue.

- Pacific Clinics did not adequately describe the symptoms and behaviors in the Assessments for 16 (40%) of the 40 clients reviewed.

  Pacific Clinics' attached response indicates that they have met with each Division, and implemented specialized training to reinforce established standards.

- Pacific Clinics did not complete the Client Care Plans in accordance with the County contract for ten (25%) of the 40 clients reviewed. Specifically, ten Client Care Plans contained objectives that were not specific and/or measurable. In addition, three of the ten Client Care Plans did not relate to the clients' needs identified in the Assessments.

  Pacific Clinics' attached response indicates that they have met with each Division, and implemented specialized training to reinforce established standards.

- Pacific Clinics did not complete 11 (14%) of the 80 Progress Notes reviewed in accordance with the County contract. Specifically, six Progress Notes did not describe what the client or service staff attempted and/or accomplished towards the clients' goals, and five Progress Notes did not indicate the duration of service.

  Pacific Clinics' attached response indicates that they have met with each Division, and implemented specialized training to reinforce established standards.

- Pacific Clinics did not have current Informed Consent forms for two (13%) of the 15 clients reviewed who received treatment with psychotropic medication.

  Pacific Clinics' attached response indicates that they will provide training to their prescribing staff to ensure that Informed Consent forms are obtained and kept in the clients' files.

DMH and DPH SAPC Fiscal and Administrative Reviews

- Pacific Clinics did not ensure that their subcontractors submitted appropriate documentation to support their billings, as required by Auditor-Controller Contract Accounting and Administration Handbook Section A.3.2.

After our review, Pacific Clinics obtained additional documents from the subcontractors to support their billings for FYs 2009-10 and 2010-11.

- Pacific Clinics did not require two authorized signatures on all checks as required by Auditor-Controller Contract Accounting and Administration Handbook Section B.2.1.

  Pacific Clinics' attached response indicates that they will amend its policy and system to ensure that all checks have at least two signatures.

- Pacific Clinics did not have documentation that they conducted an annual physical inventory of their fixed assets, as required by Auditor-Controller Contract Accounting and Administration Handbook Section B.4.2. Pacific Clinics indicated that staff performed an annual physical inventory. However, the Agency did not have documentation of the inventory.

  Pacific Clinics' attached response indicated that they employed an outside agency to complete their FY 2010-11 inventory.

- Pacific Clinics did not implement three (30%) of the ten recommendations contained in our prior monitoring report.

  Pacific Clinics' attached response indicates that they will implement the remaining recommendations from the prior monitor report.

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

Review of Report

We discussed our report with Pacific Clinics, DMH and DPH. We thank Pacific Clinics management and staff for their cooperation and assistance during our review. Pacific Clinics attached response indicates that they generally agree with our findings and recommendations, except for our determination that they billed DMH for services to an ineligible client. DMH indicated that they will work with the Agency to resolve this issue. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JS:DC:EB:yp

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, DMH
Jonathan E. Fielding, M.D., Director, DPH
Susan Mandel, Ph.D. , CEO, Pacific Clinics
Ronald C. Banks, Board Chairperson, Pacific Clinics
Public Information Office
Audit Committee

PACIFIC CLINICS
DEPARTMENT OF PUBLIC HEALTH AND MENTAL HEALTH PROGRAMS
FISCAL YEARS 2009-10 AND 2010-11

BILLED SERVICES

Objective

Determine whether Pacific Clinics (Agency) provided the services billed in accordance with their contracts with the Department of Public Health (DPH) Substance Abuse Prevention and Control (SAPC) and the Department of Mental Health (DMH).

Verification

SAPC

We reviewed the Progress Notes for ten SAPC clients who received 24 individual counseling sessions and 64 group counseling sessions in January 2011.

DMH

We selected 80 billings, totaling 10,504 minutes, from 1,969,802 service minutes of approved Medi-Cal billings for July and August 2010. We reviewed the Assessments, Client Care Plans, and Progress Notes in the clients' charts for the selected billings. The 10,504 minutes represent services to 40 program clients.

Results

SAPC

Pacific Clinics provided the services billed in accordance with their County contracts.

DMH

Pacific Clinics billed DMH for 223 minutes in services to one ineligible client. The questioned costs totaled $856 for January 2011. According to the client's chart, the Agency had been billing DMH for these services since February 2004.

The Agency also did not always comply with other DMH contract requirements. Specifically, Pacific Clinics did not:

- Adequately describe the clients' symptoms and behaviors on the Assessments to support the diagnosis for 16 (40%) of the 40 clients reviewed. The County contract requires the Agency to follow the Diagnostic and Statistical Manual of Mental Disorder (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 orders and the criteria for diagnosing them.

- Complete the Client Care Plans for ten (25%) of the 40 clients reviewed in accordance with the DMH contract. Specifically, ten Client Care Plans contained objectives that were not specific and/or measurable. In addition, three of the ten Client Care Plans did not relate to the clients' needs identified in the Assessments. This finding was also noted during the prior monitoring review.

- Complete 11 (14%) of the 80 Progress Notes reviewed in accordance with the County contract. Specifically, six Progress Notes did not describe what the client or service staff attempted and/or accomplished towards the clients' goals. Five Progress Notes did not indicate the duration of service.

- Maintain current Informed Consent forms for two (13%) of the 15 clients reviewed who received treatment with psychotropic medication. Informed Consent forms document the clients' agreement to a proposed course of treatment based on receiving clear, understandable information about the treatments' potential benefits and risks, and is required by the DMH contract to be updated on an annual basis. This finding was also noted during the prior monitoring review.

Recommendations

Pacific Clinics management:

1. **Repay DMH $856.**

2. **Work with DMH to determine the amount billed for services to the ineligible client since February 2004, and repay DMH for the unallowable amounts.**

3. **Ensure that Assessments, Progress Notes, and Client Care Plans are completed in accordance with the County Contract.**

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

STAFFING QUALIFICATIONS

Objective

Determine whether Pacific Clinic's treatment staff had the qualifications required to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 30 Pacific Clinics' treatment staff who provided services to DMH clients during July and August 2010.

Results

All 30 employees reviewed had the qualifications required to deliver the services billed.

Recommendation

None.

CASH/REVENUE

Objective

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

Verification

We interviewed Pacific Clinics' management, and reviewed the Agency's financial records. We also reviewed the Agency's bank activity for February 2011.

Results

Pacific Clinics deposited cash receipts timely, and recorded revenue properly.

Recommendation

None.

COST ALLOCATION PLAN

Objective

Determine whether Pacific Clinic prepared its Cost Allocation Plan in compliance with the County contract, and used the Plan to allocate shared expenditures appropriately.

Verification

We reviewed the Agency's Cost Allocation Plan, interviewed management, and reviewed 18 shared expenditures, totaling $42,987, to ensure that the expenditures

were allocated appropriately among the DMH and SAPC Programs for Fiscal Years (FY) 2009-10 and FY 2010-11.

Results

Pacific Clinics' Cost Allocation Plan was prepared in compliance with the County contract, and the Agency's expenditures were allocated appropriately.

Recommendation

None.

EXPENDITURES

Objective

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

Verification

We interviewed Agency personnel, and reviewed accounting records and documentation to support 100 expenditure transactions billed to the DMH and SAPC Programs between July 2009 and February 2011, totaling $878,028.

Results

Pacific Clinics did not maintain adequate documentation, such as the subcontractors' payroll and other accounting records, to support the subcontractor billings for FYs 2009-10 and 2010-11. After our review, Pacific Clinics obtained additional documents from the subcontractors to support their billings for FYs 2009-10 and 2010-11.

In addition, Pacific Clinics did not have two authorized signatures on all checks as required by Auditor-Controller Contract Accounting and Administration Handbook Section B.2.1.

Recommendations

Pacific Clinics management:

5. **Ensure subcontractors submit appropriate documentation to adequately support their billings.**

6. **Require two authorized signatures on all checks.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether the Agency's fixed assets and equipment purchases made with County funds are used for the appropriate programs and are safeguarded. In addition, determine whether fixed asset depreciation expenses charged to the DMH and SAPC Programs were allowable under the County contract, documented properly, and billed accurately.

Verification

We interviewed Agency personnel, and reviewed the Agency's fixed assets and equipment inventory listing. We performed an inventory, and reviewed the usage of 22 items purchased with County funds. In addition, we reviewed the depreciation expense charged to DMH and SAPC Programs, totaling $2,890, between May 2010 and February 2011.

Results

Pacific Clinics used the equipment and fixed assets purchased with County funds for the DMH and SAPC Programs, and the assets were safeguarded. In addition, the depreciation expense charged to the DMH and SAPC Programs were allowable, documented properly, and billed accurately. However, Pacific Clinics did not have documentation that they conducted an annual physical inventory of the equipment as required by Auditor-Controller Contract Accounting and Administration Handbook Section B.4.2. Agency staff indicated they had done an inventory, but they did not have any documentation that the inventory was done. This finding was also noted during our prior monitoring review.

Recommendation

7. **Pacific Clinics management perform an annual inventory as required.**

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the DMH and SAPC Programs. In addition, determine whether the Agency had personnel files as required.

Verification

We traced the payroll expenditures for 47 employees, totaling $201,565, for January and February 2011 to the Agency's payroll records and time reports. We also reviewed employees' personnel files.

Results

Pacific Clinics charged payroll expenditures to the DMH and SAPC Programs appropriately. In addition, the Agency maintained the personnel files as required by the County contract.

Recommendation

None.

COST REPORTS

Objective

Determine whether Pacific Clinics' Cost Reports reconciled to the Agency's accounting records.

Verification

We traced the Agency's DMH and SAPC Cost Reports for FY 2009-10 to the Agency's general ledgers. We also reviewed a sample of DMH and SAPC Programs expenditures incurred from July 2009 to February 2011.

Results

Pacific Clinics' total expenditures reported on their DMH and SAPC Cost Reports 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 our October 15, 2007 monitoring review had been implemented.

Results

Pacific Clinics did not implement three (30%) of the ten recommendations from the prior monitoring report. As previously indicated, the outstanding findings are related to Recommendations 3, 4, and 7 in this report.

Recommendation

8. **Pacific Clinics management implement the outstanding recommendation from the prior monitoring report.**

Established in 1926
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August 11, 2011

Wendy L. Watanabe, Auditor-Controller
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 S. Figueroa Street, 8th Floor
Los Angeles, CA 90071
Attention: Yoon Park

RE: Responses to the Contract Compliance Review dated August 2011

Dear Ms. Watanabe:

Per your request, the following are our detail responses to the recommendations on the draft compliance report dated August 2011.

DMH Recommendation #1: Repay DMH $856.
DMH Recommendation #2: Work with DMH to determine amount billed for services since February 2004 and repay DMH for the unallowable amounts.

Response: Pacific Clinics respectfully disagrees and formally disputes the recommendation above. In regards to the billed services results under DMH, Pacific Clinics does not believe that the services were unallowable for this one client with a diagnosis not payable under County Contact since February 2004. Pacific Clinics' assertion is that this client, who was a monolingual immigrant from Vietnam, was appropriately served in this program for many reasons, including functional impairment, symptomology, and availability of appropriate community resources.

According to the clinical documentation, this client was being treated for symptoms of psychosis that interfered with her daily functioning, including difficulty completing her activities of daily living, maintaining family and social relationships, and accessing any community resources. This client was being treated with medication support services, case management, and mental health services, all in an attempt to reduce the psychotic symptoms and increase her social, communication, and coping skills in an effort to

improve her functioning in these crucial life areas. The record also shows that these services were not only helpful, but necessary, as when the client had periods of interrupted services, her functioning rapidly declined.

As evidenced by the documentation, this client did require the assistance of several community agencies. There is involvement by the Regional Center, DCFS, and the extended family. Each entity provided for a specific need, as the client had several impairments. However, all agencies identify the need for Mental Health services due to the client's symptoms. In addition, there are virtually no local mental health services (client resided in Pasadena and then Rowland Heights) for a monolingual Vietnamese client, that could speak to both the client's cultural and linguistic needs. Pacific Clinics' Asian Pacific Family Center has been a ground breaking community partner that is well established in addressing the otherwise unmet mental health needs of the Asian Pacific Islander Community that has unique barriers to treatment. Language, cultural, immigration and service delivery factors are all integrated in the treatment approach to help those who may otherwise go unserved, and even worse, institutionalized.

Although the diagnosis was recorded as Psychosis NOS due to Head Trauma, the same documented symptoms are also found in Psychotic Disorder NOS and some forms of Schizophrenia. For the audit period, Pacific Clinics billed $856 to assist this client with her mental health and recovery needs. Since February 2004, Pacific Clinics billed $16,139 to assist this client in optimizing her community functioning through the improvement of her social, communication and coping skills and the reduction of her psychotic symptoms. Given her extensive, culturally specific needs and the lack of any other available appropriate resources, it is believed the actual amount billed for this time period would have been $600 per day or $200,000 per year, equaling over $16,000,000 to date to care for the client in a less integrated, more restrictive institutionalized setting.

At this time DMH is neither agreeing nor disagreeing with the finding and recommendation pertaining to the unallowable services due to a diagnosis not eligible for reimbursement. The department has decided to further investigate this matter by reviewing the client's chart to determine if the client was given a reimbursable diagnosis for the audit period. Based on this further investigation of the client's chart, DMH will determine whether Pacific Clinics will repay DMH for the questioned costs noted in the Auditor-Controller's report and any outstanding questioned costs going back to 2004. DMH has indicated that they will arrive at a conclusion by September 2011.

DMH Recommendation #3: Ensure that Assessments, Progress Notes, Client Care Plans are completed in accordance with County Contracts.

Response: Pacific Clinics is actively addressing this situation. Representatives from the Auditor Controller office have offered and are invited to come in to conduct trainings for staff and supervisors regarding the proper documentation of medical necessity, including the Clinical Loop of Documentation. In addition, the Pacific Clinics' Quality Improvement and Compliance (QIC) Department has already begun to disseminate the information on areas that need improvement throughout the agency. The Corporate Director of QIC has met with each Division that serves Los Angeles County and has shared the need for improvement in these areas, and the specific ways they were manifested during the audit. QIC staff have also designed and implemented specialized trainings to reinforce these standards. A training manual has been designed specifically for supervisors, as well as redesigned our chart review tool to place further emphasis on the areas identified during the review.

DMH Recommendation #4: Ensure that informed Consent is obtained and documented in the client's chart on an annual basis.

Response: As an agency, we will continue to reinforce this standard in the following ways: We will continue to provide trainings to our prescribing staff (Doctors and Nurse Practitioners) our nurses, and our supervisors around this issue. We have developed an agency standard where our nurses will work with our prescribers to assure that the consent is done on an annual basis. This item has also been emphasized with both our supervising staff as well as on our chart review tool.

DMH Recommendation #5: Ensure subcontractors submit appropriate documentation to adequately support their billings.

Response: Pacific Clinics does require appropriate documentation from vendors such as submitting all supporting invoices for expenses, time cards and payroll registers. A review of allocation methodologies and type of overhead expenses are performed annually but not always documented. Pacific Clinics performs a subcontractor review annually beginning FY 09-10 which entails reviewing general ledgers, audit reports, internal controls and allocation methodologies. Such information are not retained due to the volume of paperwork and since subcontractors are required to maintain this information and provide upon request for audits. Subcontractors with issues are documented with letter issued but no letter is issued for subcontractors with no issues identified. As of the time of the Auditor-Controller's reviews, such reviews for FY 10-11 had not been completed as this is generally performed in the fourth quarter.

To correct the recommendation, Pacific Clinics will document reviews completed via an audit check list as well as require additional information as part of the billing process which includes documentation already required and details of the overhead costs and allocation methodologies, general ledgers on a spot basis, etc. Copies of the correspondence to the subcontractors related to such requirements have been provided to the Auditor Controllers as part of the exit. Please also note that the Auditor Controllers has indicated that we do not need to require support or details from the Dept of Probation related to their benefit and overhead costs and approved a flat overhead allocation percentage as the department performs separately audits related to the Dept. of Probation.

DMH Recommendation #6: Obtain two authorized signatures on all checks.

Response: Pacific Clinics will amend its policy and system to ensure that all checks have at least two signatures.

DMH Recommendation #7: Pacific Clinics management perform an annual inventory as required.

Response: We partially disagree with the above finding as Pacific Clinics does perform an annual inventory of its computers and vehicles but the documentation (sign-offs) could be improved.

For Vehicles and Computer Equipment, the Auditor Controller's office tested our inventory for vehicles and computer/printers. These items are continually updated in inventory and any loss would be immediately noted. While there was no formal documentation of the annual inventory (sign-off), we believe that this was not accurately reflected on the comments.

For the furniture and other bulky items, as explained in the exit conference, the annual inventory was delayed due to implementation of a new inventory system and delays in obtaining approval to amend the DMH tags to include bar coding. The use of the DMH tags was a recent requirement. Also, as presented in the exit conference, inventories were partially completed and expected completion of the entire inventory of assets will be completed by the end of August 2011. Pacific Clinics employed an outside agency to complete this inventory assessment for FY 10-11 and a contract was signed and provided to the Auditor Controllers office during the review.

During the year, as various program monitoring are performed, Pacific Clinics also performs an inventory of the assets which have been compliance tested by the different

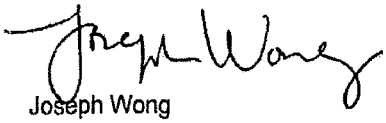
agencies with no findings. Pacific Clinics will implement formal sign-offs for inventory reviews on a go-forward basis for such inventory of assets.

DMH Recommendation #8: Pacific Clinics management implement the outstanding recommendation from the prior monitoring report.

Response: With respect to the outstanding recommendations from the prior monitoring report, please see responses under DMH Recommendation # 3, 4, and 7.

We appreciate the opportunity to respond to these comments. Please contact me at 626-254-5000 if you have any questions.

Sincerely,



Joseph Wong
Chief Financial Officer

CC: Susan Mandel, Ph.D., President / CEO
James Balla, MBA, VP Executive / COO
Sue Shearer, LCSW, Senior Vice President
Ann-Marie Stephenson, Ph.D., VP, Chief Clinical Officer
Arlayn M. Ladson-Castle, J.D. Corporate Director of Contracts and Compliance
Lily N Yee, Controller