



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

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JOHN NAIMO
AUDITOR-CONTROLLER

August 29, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo *John Naimo*
Auditor-Controller

SUBJECT: **COMMUNITY ALCOHOL AND DRUG TREATMENT FOUNDATION – A
DEPARTMENT OF PUBLIC SOCIAL SERVICES DOMESTIC VIOLENCE
SUPPORTIVE SERVICES PROGRAM PROVIDER – CONTRACT
COMPLIANCE REVIEW**

We completed a contract compliance review of Community Alcohol and Drug Treatment Foundation (CADTF or Agency), which included a sample of transactions during July 2014 through December 2015. The Department of Public Social Services (DPSS) contracts with CADTF to provide Domestic Violence Supportive Services (DVSS) Program services. DVSS Program services include performing assessments, and providing counseling and legal assistance to domestic violence victims.

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

Our review covered one DVSS Program contract with CADTF, for which DPSS paid the Agency approximately \$136,116 on a fixed-fee basis during July 2014 through December 2015. CADTF provides services to residents of the Third Supervisorial District.

Results of Review

CADTF's inability to pay their debts, significant accounting and internal control issues, and lack of management oversight impact their ability to ensure DVSS Program funds

are adequately safeguarded and appropriately used to provide DVSS Program services. Specifically, CADTF did not maintain:

- Sufficient working capital to pay their debts or meet their day-to-day financial obligations. As of December 31, 2015, there were 12 uncashed payroll checks made out to their Executive Business Director (EBD), totaling \$14,227. According to the EBD, she did not cash her payroll checks because of insufficient funds in their bank account. CADTF also reported a negative book balance of \$10,244 on their December 2015 bank reconciliation, and even borrowed \$6,000 from the Board of Directors' (Board) Chairperson and \$1,000 from their EBD, without written loan agreements, to pay for their operating expenses.
- Adequate segregation of duties over their cash and payroll operations as required by Sections B.1.3 and B.3.3 of the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook). For example, CADTF's EBD performed nearly all of the Agency's fiscal and payroll duties, including depositing and recording cash receipts, authorizing payments, approving bank reconciliations, maintaining personnel files, and distributing payroll checks to employees.
- Accurate and complete financial records. CADTF's Fiscal Year 2014-15 Close-Out Expenditure Report did not reconcile to their financial records. According to CADTF's management, they incorrectly thought it was not necessary to record \$27,878 in disbursements on their financial records since their DVSS Program expenditures exceeded DPSS' payments.
- A Governing Board in compliance with California Corporations Code Section 5227, which limits the number of Board positions assigned to the organization's employees to no more than 49%. At the time of our review, three (60%) of the five Board members were CADTF employees.

CADTF also did not comply with other provisions of their County contract and billed DPSS \$6,093 in questioned costs. For example, CADTF did not:

- Disclose all conflict of interest matters to DPSS as required by Section 8.6.2 of their County contract. Specifically, CADTF did not disclose to DPSS that the EBD's son is the Agency's Chief Financial Officer and the lessor of the leased facility.
- Resolve outstanding reconciling items in a timely manner as required by Section B.1.4 of the A-C Handbook and had six reconciling items, totaling \$5,408, over six months old on their December 2015 bank reconciliation. Four (67%) of the six outstanding checks, totaling \$4,593, were related to the DVSS Program.
- Maintain adequate documentation, such as time reports, to support \$1,500 (60%) of the \$2,496 in payroll expenditures reviewed.

Subsequent to our review, CADTF provided additional documentation to support the \$6,093 in questioned costs.

CADTF's attached response indicates that they concur with all of our findings and recommendations, and asserts that they will comply with the recommendations in the event of a future contract with DPSS.

Due to the Agency's inability to pay their debts, significant accounting and internal control issues, and their inability to comply with their County contract requirements, DPSS should consider placing CADTF in the County's Contractor Alert Reporting Database (CARD). According to the CARD Manual, a contractor that has experienced financial, administrative, programmatic, or legal issues that affect their ability to comply with their contract requirements should be placed in CARD.

As of June 30, 2016, CADTF no longer contracts with DPSS to provide DVSS Program services. However, DPSS should ensure that all of our recommendations have been implemented prior to contracting with CADTF in the future.

Details of our review, along with recommendations for corrective action, are attached (Attachment I).

Review of Report

We discussed our report with CADTF and DPSS. CADTF's attached response (Attachment II) indicates agreement with our findings and recommendations. DPSS will work with CADTF to ensure that our recommendations are implemented.

We thank CADTF management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Aggie Alonso at (213) 253-0304.

JN:AB:PH:AA:YP:iw

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Sheryl L. Spiller, Director, DPSS
Mark Sherman, Board Chair and Chief Financial Officer, CADTF
Zita Sherman, Executive Business Director, CADTF
Public Information Office
Audit Committee

**COMMUNITY ALCOHOL AND DRUG TREATMENT FOUNDATION
DOMESTIC VIOLENCE SUPPORTIVE SERVICES PROGRAM
CONTRACT COMPLIANCE REVIEW
JULY 2014 THROUGH DECEMBER 2015**

FINANCIAL VIABILITY

Objective

Determine whether Community Alcohol and Drug Treatment Foundation (CADTF or Agency) is financially viable to provide adequate services under their Department of Public Social Services (DPSS) contract.

Verification

We interviewed Agency management, reviewed their financial records and unaudited balance sheet for the period ended December 31, 2015. The Agency was not required to submit a Single Audit report.

Results

CADTF did not maintain sufficient working capital to pay their debts or meet their day-to-day financial obligations. As a result, we have concerns about CADTF's financial viability. Specifically, we noted CADTF:

- Did not maintain sufficient working capital to pay their Executive Business Director's (EBD) salary. As of December 31, 2015, there were 12 uncashed payroll checks made out to their EBD, totaling \$14,227. According to the EBD, she did not cash her payroll checks because of insufficient funds in their bank account. Subsequent to our review, CADTF provided copies of canceled checks to support that all 12 payroll checks were cashed as of July 5, 2016.
- Reported a negative book balance of \$10,244 on their December 2015 bank reconciliation.
- Borrowed \$6,000 from the Board of Directors' (Board) Chairperson and \$1,000 from their EBD, without written loan agreements, to pay their operating expenses.
- Did not maintain an accounts payable ledger or aging report to record and track their debts.

According to Section 8.41 of their County contract, "a contractor shall be deemed to be insolvent if it has ceased to pay its debts for at least 60 days in the ordinary course of business or cannot pay its debts when they become due."

Recommendations**Community Alcohol and Drug Treatment Foundation management:**

1. **Submit a formal plan on how the Agency can improve their financial condition and maintain sufficient working capital to pay its debts as they become due.**
2. **Ensure loans from the Board of Directors and Executive Business Director are properly documented with written loan agreements.**
3. **Maintain an accounts payable ledger and aging report to record and track their debts.**

GOVERNANCE**Objective**

Determine whether CADTF maintained a Board in compliance with the California Corporations Code Section 5227 (Section 5227).

Verification

We interviewed Agency personnel and evaluated whether the Board of CADTF is in compliance with applicable guidelines.

Results

CADTF's Board was not in compliance with Section 5227, which limits the number of Board positions assigned to the organization's employees to no more than 49%. Specifically, three (60%) of the five Board members were CADTF employees. The high percentage of Board positions assigned to Agency employees impacts the level of independence and internal controls over the Agency's fiscal operations, and their ability to safeguard assets and funding received from the County. As such, CADTF's management should establish an appropriate Board in compliance with California State law. Subsequent to our review, CADTF added one new Board member in February 2016. However, CADTF's Board is still not in compliance with Section 5227 since the number of Board positions assigned to the organization's employees is still more than 49%.

Recommendation

4. **Community Alcohol and Drug Treatment Foundation management establish an appropriate Board of Directors in compliance with California State law.**

ELIGIBILITY**Objective**

Determine whether CADTF maintained documentation to support the eligibility of clients that the Agency claimed received Domestic Violence Supportive Services (DVSS) Program services.

Verification

We reviewed the documentation stored in the case files for ten (26%) of the 39 clients that the Agency claimed received DVSS Program services during November 2015.

Results

CADTF maintained documentation to support the eligibility of the ten clients reviewed.

Recommendation

None.

PROGRAM SERVICES**Objective**

Determine whether CADTF maintained documentation to support the services charged to DPSS.

Verification

We reviewed the case files for ten (26%) of the 39 clients that the Agency claimed received DVSS Program services during November 2015.

Results

CADTF maintained documentation to support the services provided to the ten clients reviewed.

Recommendation

None.

STAFFING QUALIFICATIONS**Objective**

Determine whether CADTF's staff had the required qualifications to provide DVSS Program services.

Verification

We reviewed the personnel files for all three CADTF staff who provided services to DVSS Program clients during November 2015.

Results

CADTF's three staff reviewed had the required qualifications to provide DVSS Program services.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether CADTF properly recorded revenue in their financial records, deposited cash receipts into their bank account timely, and if bank reconciliations were prepared timely, and reviewed and approved by Agency management.

Verification

We interviewed CADTF's personnel, and reviewed their financial records and December 2015 bank reconciliation for one bank account.

Results

CADTF did not maintain adequate internal controls to ensure funds were accurately accounted for and safeguarded. Specifically, CADTF did not:

- Maintain adequate segregation of duties over their cash and disbursement operations as required by Section B.1.3 of the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook). For example, CADTF's EBD performed nearly all of the Agency's fiscal duties, including depositing and recording cash receipts, authorizing payments, and approving bank reconciliations.

- Resolve outstanding reconciling items in a timely manner as required by Section B.1.4 of the A-C Handbook and had six reconciling items, totaling \$5,408, over six months old on their December 2015 bank reconciliation. Four (67%) of the six outstanding checks, totaling \$4,593, were related to the DVSS Program. Subsequent to our review, CADTF provided copies of six canceled checks to support that the reconciling items were resolved as of July 5, 2016.

Recommendations

Community Alcohol and Drug Treatment Foundation management:

5. Establish and maintain adequate segregation of duties and other controls to ensure funds are accurately accounted for and safeguarded.
6. Ensure bank reconciling items are resolved timely.

COST ALLOCATION PLAN/EXPENDITURES

Objective

Determine whether CADTF developed their Cost Allocation Plan (Plan) using an appropriate cost allocation methodology, and if expenditures charged to the DVSS Program were allowable, properly documented, and appropriately allocated.

Verification

We interviewed CADTF's personnel, and reviewed their Plan and financial records for six non-payroll expenditures, totaling \$2,919, that the Agency charged to the DVSS Program during August through December 2015.

Results

CADTF developed their Plan using an appropriate cost allocation methodology. However, CADTF did not provide documentation to support that their monthly lease payments, made to a related party, were for the lower of actual cost of ownership or fair market value as required by Section A.3.3 of the A-C Handbook. Although the total questioned cost for the single lease transaction reviewed was immaterial, CADTF's management should determine whether the monthly lease payments made to the related party were for the lower of actual cost of ownership or fair market value. Subsequent to our review, CADTF submitted documentation to support that the lease payments made to the related party were below the fair market value.

Recommendation

7. **Community Alcohol and Drug Treatment Foundation management maintain adequate documentation to support the Domestic Violence Supportive Services Program expenditures.**

ADMINISTRATIVE COMPLIANCE**Objective**

Determine whether the Agency was in compliance with their DVSS Program and other County contract administrative requirements.

Verification

We interviewed CADTF's management, reviewed their policies and procedures manuals, and conducted an on-site visit.

Results

CADTF did not always comply with their DVSS Program and other County contract requirements. Specifically, CADTF did not:

- Disclose all conflict of interest matters to DPSS as required by Section 8.6.2 of their County contract. Specifically, CADTF did not disclose that the EBD's son is the Agency's Chief Financial Officer and the lessor of the leased facility.
- Maintain their operating hours between 8:00 a.m. to 5:00 p.m. as required by Section 4.7 of Exhibit A of their County contract. Based on our observation, CADTF opened and closed at different times each day depending on the EBD's personal schedule. Subsequent to our review, DPSS confirmed that, as of February 18, 2016, CADTF's operating hours were in compliance with their County contract.

Recommendations**Community Alcohol and Drug Treatment Foundation management:**

8. **Immediately disclose all conflict of interest matters to the Department of Public Social Services.**
9. **Maintain office hours between 8:00 a.m. to 5:00 p.m. as required by their County contract.**

PAYROLL AND PERSONNEL**Objective**

Determine whether CADTF maintained personnel files as required and charged payroll expenditures to the DVSS Program that were allowable, properly documented, and appropriately allocated.

Verification

We interviewed employees, and reviewed personnel files for three employees. We also compared the payroll expenditures for the three employees, totaling \$2,496 for November 2015, to the Agency's payroll records and time reports.

Results

CADTF did not maintain adequate documentation, such as time reports, to support \$1,500 (60%) of the \$2,496 in payroll expenditures reviewed. In addition, CADTF did not maintain adequate segregation of duties over its payroll and personnel operations as required by Section B.3.3 of the A-C Handbook. Specifically, the EBD had unrestricted access to both payroll and personnel functions. For example, the EBD was authorized to hire and terminate employees, approve employees' pay rate changes, maintain personnel files, and distribute payroll checks to employees. Subsequent to our review, CADTF provided time reports to support the \$1,500 in payroll expenditures.

Recommendations

Refer to Recommendation 7.

- 10. Community Alcohol and Drug Treatment Foundation management establish and maintain adequate internal controls over their payroll and personnel operations.**

CLOSE-OUT REVIEW**Objective**

Determine whether CADTF's Fiscal Year (FY) 2014-15 Close-Out Expenditure Report reconciled to their financial records and whether CADTF had any unspent revenue for FY 2014-15.

Verification

We compared the total revenues and expenditures from CADTF's FY 2014-15 Close-Out Expenditure Report to their financial records and to DPSS' payment records.

Results

CADTF's FY 2014-15 Close-Out Expenditure Report did not reconcile to their financial records. Specifically, CADTF's FY 2014-15 Close-Out Expenditure Report reported \$133,290 in DVSS Program expenditures. However, the Agency's financial records supported only \$105,412 in expenditures. According to CADTF's management, they incorrectly thought it was not necessary to record the additional \$27,878 in disbursements on their financial records since their DVSS Program expenditures exceeded DPSS' payments totaling \$93,665. Although CADTF did not have unspent revenue in FY 2014-15, CADTF's management should ensure that their Close-Out Expenditure Reports are supported by their financial records, and maintain accurate and complete financial records.

Recommendations**Community Alcohol and Drug Treatment Foundation management:**

- 11. Ensure Close-Out Expenditure Reports are supported by their financial records.**
- 12. Maintain accurate and complete financial records.**



COMMUNITY ALCOHOL AND DRUG TREATMENT FOUNDATION
15015 OXNARD ST. VAN NUYS CA 91411
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July 18, 2016

John Naimo, Auditor-Controller
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 S. Figueroa Street, 8th Floor
Los Angeles, CA 90071
Attention: Iscah Wang

This letter is a formal response to the draft of the contract compliance report.

As of July 1, 2016, Community Alcohol & Drug Treatment Foundation (CADTF) is no longer contracted to DPSS.

As far as the findings of the report, CADTF concurs with the findings and recommendations and shall conscientiously separate the duties of its staff and directors in the event of any future contract with DPSS. CADTF also asserts that it takes proper record keeping very seriously and is eager to provide any additional information, should such information be requested by DPSS or Department of Auditor Controller.

However, CADTF would like to note the following:

- The primary mission of CADTF has always been to provide the best possible service to every client that walks through our doors
- Hiring additional employees to further separate duties would have resulted in a reduction in service, which CADTF wanted to avoid
- Due to the financial constraints of the contract, CADTF was not able to employ enough individuals in order to have a complete separation of duties (i.e.: Executive Business Director was performing as one of the counselors in addition to other duties) and still provide the high quality of service that our clients were accustomed to
- In the future, all parties related to CADTF shall be more careful and conscientious in ensuring proper separation of duties and responsibilities
- CADTF submitted all requested documentation in a timely manner during site visits and during post-visit requests via e-mail.

ANALYSIS OF ATTACHMENT I – CONTRACT COMPLIANCE REVIEW.

1. Financial Viability



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- In the event of a future contract with DPSS, CADTF shall follow DPSS recommendations regarding maintaining Accounts Payable Aging and Ledger Reports to record and track debts
- In the event of a future contract with DPSS, CADTF shall ensure that all loans are properly documented with written loan agreements

2. Governance
 - In the event of a future contract with DPSS, CADTF shall establish an appropriate Board of Directors in compliance with California State Law and DPSS requirements
3. Cash Revenue
 - In the event of a future contract with DPSS, CADTF shall follow DPSS recommendations
4. Administrative Compliance
 - CADTF resolved this matter on February 11, 2016 (as stated in the Contract Discrepancy Report dated 02/11/2016)
5. Payroll and Personnel
 - In the event of a future contract with DPSS, CADTF shall maintain established requirements, per DPSS recommendations
6. Closeout Review
 - In the event of a future contract with DPSS, a Closeout Expenditures report shall be supported by financial records, as required by DPSS

Regards,

A handwritten signature in black ink, appearing to read "Zita Sherman".

Zita Sherman
Executive Business Director