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December 4, 2007

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **STAR VIEW CHILDREN AND FAMILY SERVICES CONTRACT REVIEW – A WRAPAROUND APPROACH SERVICES PROGRAM**

We have conducted a fiscal review of Star View Children and Family Services (Star View or Agency), a Wraparound Approach Services (Wraparound) Program provider.

Background

The Department of Children and Family Services (DCFS) contracts with Star View, a private non-profit community-based organization, to provide and operate the Wraparound Program. The Wraparound Program is a family-centered and needs-driven program providing individualized services to children and their families such as, therapy, housing, educational and social assistance. The target population for the Wraparound Program includes children who are currently or at risk of being placed in a Rate Classification Level of 12 to 14 group home, Metropolitan State hospital, etc. Star View's offices are located in the First, Second and Fourth Districts.

DCFS pays Star View on a fee-for-service basis $5,994 per month for non-federally eligible children and $2,997 per month for federally eligible children. DCFS paid Star View approximately $6,295,000 for Fiscal Year (FY) 2006-07.

Purpose/Methodology

The purpose of the review was to determine whether Star View complied with its contract terms and appropriately accounted for and spent Wraparound funds in providing services to children and their families. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines.

Results of Review

Star View charged the Wraparound Program approximately $2 million in management services paid to its two subcontractors, Stars Behavioral Health Group (SBHG) and Star View Adolescent Center, Inc. (SVAC). Star View did not comply with the County contract regarding subcontractors. Specifically:

- Star View did not obtain the County's approval prior to using the two subcontractors.
- Star View did not include specific deliverables in their contracts with SBHG and SVAC. For example, the contract with SVAC did not identify the specific services that SVAC was required to provide.
- Star View paid the subcontractors even though the subcontractors' invoices did not specify the work performed.
- Payments made to the subcontractors were not identified in the budget submitted to the County.

Based on the lack of detailed documentation, we were not able to determine whether the $2 million in management costs was appropriate or the costs were reasonable and necessary for the Wraparound Program. SBHG and Star View management indicated that Star View is in the process of revising the two contracts with SBHG and SVAC.

Star View also over charged the Wraparound Program approximately $44,000 in cellular phone expenditures and reported approximately $800,000 in unspent Wraparound revenues for FY 2005-06. Star View needs to reimburse the Wraparound Program $44,000 and ensure that the unspent Wraparound funds are placed in a reserve account to be used in the future for the Wraparound Program.

The details of our review along with recommendations for corrective action are attached.

Review of Report

On March 23, 2007, we discussed our report with Star View management. In their attached response, Star View management stated that Star View's "administrative agreements" with SBHG and SVAC are not subcontracts because their subcontractors do not provide services directly related to the delivery of program services to clients. However, the County contract defines a subcontract as a contract where a third party agrees to provide services or materials necessary to fulfill an original contract. We informed DCFS of Star View's response on this issue and recommend that DCFS and County Counsel work with Star View to clarify the Agency's contractual relationship with SBHG and SVAC.

The Agency also reported that they corrected the issue involving cellular phones to prevent future overbillings. However, the Agency did not indicate that they plan to reimburse the Wraparound Program approximately $44,000 for the amount they overbilled. We will work with DCFS to resolve this issue.

We thank Star View for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Susan Kerr, Chief Deputy Director, Department of Children and Family Services
Ken Dunlap, Executive Director, Star View Children and Family Services
Public Information Office
Audit Committee

WRAPAROUND APPROACH SERVICES
STAR VIEW CHILDREN AND FAMILY SERVICES
FISCAL YEAR 2005-06

UNSPENT REVENUE

Star View Children and Family Services (Star View or Agency) receives $5,994 per month for each non-federally eligible child and $2,997 per month for each federally eligible child assigned to them. In instances where the Agency does not expense the entire monthly amount in providing services to a child, the Agency is permitted to use the excess revenue to fund services to children that require services in excess of the monthly rate. Star View is also permitted to carry over unspent Wraparound funding from one program year to another to provide additional Wraparound Program services in subsequent years.

Star View reported $801,335 of unspent Wraparound revenue for Fiscal Year (FY) 2005-06. Star View needs to place the unspent funds in a reserve account to ensure that the funds are available to provide Wraparound Program services in subsequent years.

Recommendation

1. **Star View management reserve the unspent funds to ensure that the funds are used to provide Wraparound Program services in subsequent years.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenues are properly recorded in Star View records and deposited timely in the Agency's bank account. In addition, determine whether the Agency maintained adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the bank reconciliations for March 2006.

Results

Star View maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner. However, 37 (22%) of 171 outstanding checks on

the Agency's bank reconciliations were over 90 days old, totaling $4,319. In addition, the bank reconciliation was not signed by a reviewer. The County contract requires reconciling items to be resolved timely and unclaimed or undelivered checks should be cancelled periodically. Subsequent to our review, Star View voided all 37 outstanding checks.

Recommendation

2. **Star View management resolve reconciling items in a timely manner and ensure that bank reconciliations are signed by the reviewer.**

EXPENDITURES/PROCUREMENT

Objective

Determine whether program related expenditures are allowable under the County contract, properly documented, and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and reviewed documentation for 27 non-personnel expenditure transactions billed by the Agency from July 2005 through April 2006, totaling $84,027.

Results

Star View expensed $44,264 in program funds for transactions that are not allowed under the County contract. Specifically:

- Star View charged the Wraparound Program $13,651 for cellular phone expenditures incurred in February 2006. The expenditures related to a cellular phone plan that included 150 cellular phone lines. Wraparound Program staff were assigned approximately 100 cellular phone lines. As a result, only $9,097 should have been charged. We reviewed the cellular phone invoices for all 12 months and determined that Star View overcharged the Wraparound Program a total of $44,114 in cellular phone expenses.

- Star View charged the Wraparound Program $913 to purchase a computer. However, the computer was not used on the Wraparound Program. Subsequent to our review, the computer was reassigned to a Wraparound employee.

- Star View overcharged the Wraparound Program $150 due to a billing error made by one of their consultants.

Recommendations

Star View management:

3. **Reimburse the Wraparound Program $44,264.**

4. **Discontinue using the Wraparound Program fund for expenditures applicable to other programs.**

INTERNAL CONTROLS

Objective

Determine whether the Agency maintained sufficient internal controls over its business operations.

Verification

We interviewed Agency personnel, reviewed the Agency's policies and procedures manuals, and tested transactions in various areas such as expenditures, payroll and personnel.

Results

Star View maintained sufficient internal controls over its business operations.

Recommendation

There are no recommendations for this section.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether the Agency's fixed assets and equipment purchases made with Wraparound funds are used for the Wraparound Program and that the assets are safeguarded.

Verification

We interviewed Agency personnel and performed a physical inventory count of one item purchased for $8,893 in January 2006.

Results

In January 2006, Star View purchased a van from Stars Behavioral Health Group (SBHG) for $8,893. At the time of our review in April 2006, the engine did not start and the auto's registration had expired. In addition, the Agency did not maintain a mileage log to validate that the van was used for the Wraparound Program. Subsequent to our review, Star View repaired the van and provided a current auto registration.

Recommendation

5. **Star View management ensure items listed as Wraparound fixed assets are operable and used solely for the Wraparound Program.**

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures are appropriately charged to the Wraparound Program. In addition, determine whether personnel files are maintained as required.

Verification

We reviewed payroll expenditures of 25 (20%) employees, totaling $41,190, for March and April 2006. We also reviewed the personnel files of staff assigned to the Wraparound Program.

Results

Star View's salaries were properly supported and appropriately charged to the Wraparound Program. However, three (12%) of 25 timecards reviewed were not signed by either the employee or the supervising staff. In addition, Star View did not maintain a copy of one employee's social security card in his personnel file. Subsequent to our review, Star View provided copies of signed timecards for the three employees and the social security card of the one employee.

Recommendations

Star View management:

6. **Ensure that all employee timecards are signed by employees and their supervisors to certify the accuracy of the reported time.**

7. **Ensure that required documentation is maintained in the personnel files.**

CONTRACTED SERVICES

Objective

Determine whether Star View complied with the County contract in using subcontractors.

Verification

We reviewed Star View's professional agreements made with two affiliated organizations and reviewed invoices billed by the two organizations in February and March 2006.

Results

Star View subcontracted its executive, administrative and other services to SBHG and Star View Adolescent Center, Inc (SVAC). During FY 2005-06, Star View charged the Wraparound Program $600,402 and $1,434,588 for services performed by SBHG and SVAC, respectively. However, we noted a number of issues regarding the agreements established between Star View and the two companies. Specifically:

- Star View did not obtain DCFS' approval prior to subcontracting with the two companies. The County contract requires the Agency to submit each subcontract to the County for written approval prior to the subcontractor performing any work.

- Star View's contracts with SBHG and SVAC do not clearly indicate what is expected of the subcontractors. Both contracts state general areas of services to be provided without specific details. For example, according to the agreement with SVAC, SVAC would make its staff and resources available upon request of Star View, in executive management, human resources management, business office and accounting, legal services, clinical administration, training, quality assurance, maintenance, housekeeping and other services.

- Invoices issued by the two subcontractors did not specify the work performed. The invoices billed from SBHG and SVAC stated either "management fees" or "centralized services" as work description and stated the monthly billing amount. The billing amounts stated the monthly portion of the budgeted expenditures of SBHG and SVAC. The County contract requires that invoices should be supported with contracts, time and attendance, billing rates and other supporting documentation detailing the nature of services provided.

- Star View appears to have a close business relationship with the two subcontractors. The Agency's executive director is also employed as the executive director at SVAC and as the Vice President of Operations at SBHG.

The County contract states that organizations or persons related to the Agency or its members legal organization will be considered affiliated and payments to affiliated organizations are disallowed to the extent the payments exceed the lower of actual costs or the reasonable costs for such item.

- Payments made to the two subcontractors did not agree to the budget submitted to the County. The County contract states that expenses should not exceed the maximum limits shown on the contract budget.

Therefore, we were not able to determine whether the $2,034,990 in management costs were appropriate, and whether the costs were reasonable and necessary for the Wraparound Program. Star View and SBHG management indicated that Star View is in the process of revising the two contracts with SBHG and SVAC. We will review the revised contracts and management costs in FY 2007-08.

Recommendations

Star View management:

8. **Obtain the County's approval prior to subcontracting services related to the Wraparound Program.**

9. **Provide the County with adequate documentation to support the amount charged to Wraparound for SBHG's and SVAC's services.**

10. **Ensure that payments to affiliated parties are the lower of actual costs or fair market value.**

11. **Ensure that the costs charged to the Wraparound Program are reasonable, proper and necessary to provide program services.**

Star View Children & Family Services
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July 2, 2007

Mr. J. Tyler McCauley
Auditor-Controller
County of Los Angeles
Department Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, CA 90012-2766

Re: Star View Children and Family Services Contract Review - Wraparound Approach Services Program Report

Dear Mr. McCauley,

We are in receipt of the report from the Auditor Controller relating to their review of the contract between Star View Children and Family Services and the Department of Children and Family Services (DCFS), covering 2005-2006. This letter will address the findings brought forth by the auditors in their report and provides our plans for a corrective action plan. We appreciate the thorough, professional and cordial manner in which the auditors conducted their work.

UNSPENT REVENUE

Recommendation:
Star View management to reserve the unspent funds to ensure that the funds are used to provide Wraparound program services in subsequent years.

Response:
We will reserve the unspent revenue pertaining to Wraparound for fiscal year 05-06 and subsequent years.

CASH REVENUE

Recommendation:
Star View management resolve reconciling items in a timely manner and ensure that bank reconciliations are signed by the reviewer.

Response:
We have revised our procedure so that outstanding checks are investigated after 90 days and voided after 6 months. Bank reconciliations are now approved by the Controller.

EXPENDITURES/PROCUREMENT

Recommendations:
- *Star View management to reimburse the Wraparound program $44,264 and ensure the money is solely used for the program.*
- *Star View management to discontinue using the Wraparound Program fund for expenditures applicable to other programs.*
- *Star View management to maintain adequate supporting documentation for expenditures charged to Wraparound program.*

Response:
The issue with the cellular phones is primarily related to an allocation of fixed service charges and taxes in the contract to unused minutes in our plan. The minutes went unused because our plans for growth were curtailed due to DCFS discontinuing referral of certain categories of clients and reducing Wraparound funding. We subsequently revised our contractual agreement to reduce the minutes to an appropriate amount for current staffing.

The duplicate $150 charge will be deducted from the next invoice from the consultant. As noted in the report, we have reassigned the computer back to the Wraparound program.

FIXED ASSETS

Recommendation:
Star View management to ensure items listed as Wraparound fixed assets are operable and used solely for the Wraparound program.

Response:
As noted in the report, all issues have been corrected.

PAYROLL AND PERSONNEL

Recommendations:
- *Star View management to ensure that all employee timecards are signed by employees and their supervisors to certify the accuracy of the reported time.*
- *Star View management to ensure that required documentation is maintained in the personnel files.*

Response:
As stated above, all deficiencies were later corrected.

CONTRACTED SERVICES

Recommendations:
- *Star View management to obtain the County's approval prior to subcontracting services related to Wraparound program.*
- *Star View management to provide the County with adequate documentation to support the amount charged to Wraparound for SBHG's and SVAC's services.*
- *Star View management to ensure that payments to affiliated parties are lower of actual costs or fair market value.*

- *Star View management to ensure that the costs charged to Wraparound program are reasonable, proper and necessary to provide program services.*

Response:
SVCFS believes the administrative agreements with SBHG and SVAC are not subject to the prior approval requirements of the county because they are not "subcontracts" of the contract between SVCFS and DCFS. The contract provisions relating to subcontracts quite clearly pertain solely to activities directly related to the delivery of program services to clients, as set forth more fully in Exhibit A (Statement of Work) to the contract. Administrative service agreements are not for the delivery of program services to children and are not subject to prior approval.

In any event, the existence of the SBHG and SVAC administrative agreements has been fully disclosed to DCFS since the inception of the Wraparound Program. The administrative agreements are clearly defined in the proposals submitted to DCFS that lead to SVCFS' original wraparound contracts in 2001. DCFS has had full knowledge of the agreements between SVCFS and SBHG and SVAC for over 10 years, as they are similar to the service agreements that cover the Community Treatment Facility (CTF) contract between DCFS and SVCFS. DCFS accepted the proposal of SVCFS, including the disclosed administrative agreements, and never identified them as subcontracts requiring a separate approval. If it is ultimately determined that these management service agreements do require approval, we request that acceptance of our proposal be deemed to constitute approval of these agreements.

Star View Children and Family Services (SVCFS) is not an affiliated organization of Stars Behavioral Health Group or Star View Adolescent Center. SVCFS will continue to ensure that costs that are charged are reasonable, proper and necessary.

Respectfully,

Kent Dunlap

Kent Dunlap
Executive Director