



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

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2706
PHONE: (213) 974-8301 FAX: (213) 626-5427

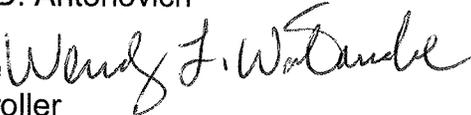
WENDY L. WATANABE
ACTING AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
MARIA M. OMS

December 19, 2008

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

FROM: Wendy L. Watanabe 
Acting Auditor-Controller

SUBJECT: **SERRA ANCILLARY CARE CORPORATION CONTRACT REVIEW – A
DEPARTMENT OF PUBLIC HEALTH HIV/AIDS CARE SERVICE
PROVIDER**

We completed a fiscal review of Serra Ancillary Care Corporation (Serra or Agency), an HIV/AIDS care service provider.

Background

The Department of Public Health, Office of AIDS Programs and Policy (OAPP) contracts with Serra to provide HIV/AIDS residential care services. Serra is located in the Fifth District.

At the time of our review, Serra had one fixed fee contract and one cost reimbursement contract with OAPP and was paid approximately \$1.8 million in OAPP funds from March 2005 to June 2006.

Purpose/Methodology

The purpose of our review was to determine whether Serra appropriately charged OAPP for the services provided in accordance with the County contract. We also evaluated the adequacy of Serra's accounting records, internal controls and compliance with the contract and applicable federal and State fiscal guidelines governing the Ryan White, Comprehensive AIDS Resource Emergency (CARE) Act. In addition, we determined whether the Agency provided services to eligible participants.

"To Enrich Lives Through Effective and Caring Service"

Results of Review

The Agency maintained documentation to support the participants' eligibility to receive program services. Serra also appropriately recorded and deposited cash receipts timely in the Agency's bank account. However, Serra's client fee determination system was not in compliance with the CARE Act which requires the Agency to impose service fees based on the clients' ability to pay.

In addition, Serra's cost report for their fixed-fee contract contained \$151,967 in questioned costs. Serra's management disagreed with the questioned costs identified in our report on the basis that the contract was a fixed-fee contract.

We believe that agencies are required to comply with the County contract requirements for both fixed-fee and cost reimbursement contracts, including spending program funds on program related services and maintaining proper documentation.

County Counsel indicated that OAPP's HIV/AIDS cost reimbursement contracts contain language that would allow the County to recover disallowed and undocumented expenditures but the fixed-fee contracts do not contain such provisions. County Counsel also indicated that the County has other remedies such as terminating the contract or negotiating with the Agency to repay the funds.

We recommend that DPH work with County Counsel to amend Serra's fixed-fee contract and include language to allow the County in the future to recover funds related to disallowed and undocumented program expenditures. In this instance, DPH should consider negotiating a line item budget for the fixed-fee contract and validate budget costs against actual costs during the year-end cost reporting period.

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

Review of Report

We discussed our report with Serra's management. In their attached response, the Agency agreed with most of our recommendations but did not agree with the questioned costs in our report. Subsequent to our review, County Counsel indicated that the OAPP HIV/AIDS fixed-fee contract did not contain language that would allow the County to recover questioned costs as long as the services were provided. Therefore, we are not recommending Serra to repay the questioned costs. However, we are recommending that the fixed-fee contract be amended to allow the County to recover those funds in the future.

Board of Supervisors
December 19, 2008
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We thank Serra personnel 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:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Jonathan E. Fielding, Director, Public Health Department
Raymond G. Fortner, Jr., County Counsel
Laurie F. Hasencamp, Chair, Board of Directors, Serra Ancillary Care Corporation
Public Information Office
Audit Committee

**HIV/AIDS PREVENTIVE CARE AND CARE SERVICES
SERRA ANCILLARY CARE CORPORATION
FISCAL YEAR 2006-2007**

ELIGIBILITY

Objective

Determine whether Serra Ancillary Care Corporation (Serra or Agency) provided services to individuals that meet the eligibility requirements of the Office of AIDS Programs and Policy (OAPP).

Verification

We reviewed the case files for twelve program participants that received services in January 2006 to confirm their eligibility for OAPP services.

Results

The case files for all twelve program participants contained documentation to support the participants' eligibility to receive program services.

Recommendation

There are no recommendations for this section.

CASH

Objective

Determine whether cash receipts are properly recorded in the Agency's accounting records and deposited timely in their bank account. In addition, determine whether the bank reconciliations are properly prepared and reconciling items are valid and cleared in a timely manner.

Verification

We interviewed the Agency's personnel and reviewed their financial records. We also reviewed the Agency's bank reconciliations for November and December 2005 for five bank accounts.

Results

Serra's bank reconciliations were not reviewed and approved by management. Serra indicated that their bank reconciliations are reviewed by their external auditors during the Agency's annual audit. Bank reconciliations are prepared to detect errors or irregularities and should be reviewed and approved timely by management.

Recommendation

1. Serra management ensure bank reconciliations are reviewed and approved timely in writing by management.

REVENUE**Objective**

Determine whether revenues are properly recorded and reimbursement claims to OAPP are accurately prepared and calculated. In addition, determine whether fees collected from clients and third party payer (i.e., private insurance, Medi-Cal or Medicare) are accounted for and reported to OAPP.

Verification

We reviewed Serra's financial records and reimbursement claims sent to OAPP for December 2005 and January 2006. We also verified the number of days the Agency billed OAPP for twelve residents during January 2006.

Results

Serra recorded revenue in the appropriate accounts and accurately prepared their reimbursement claims to OAPP. However, Serra's client fee determination system was not in compliance with Ryan White, Comprehensive AIDS Resource Emergency (CARE) Act which requires the Agency to impose service fees based on the clients' ability to pay. Serra's residents were charged a monthly fixed rate of 80% (at two residential homes) and 50% (at another residence) of the clients' income without taking into consideration the residents' ability to pay as required by the County contract. Also, the County contract requires the Agency to develop and implement a client fee determination system based on the residents' ability to pay that has been reviewed and approved by OAPP.

Recommendations**Serra management:**

2. Ensure that the Agency's client fee determination system is in compliance with the CARE Act.
3. Ensure that the Agency's client fee determination system has been reviewed and approved by OAPP.

EXPENDITURES

Objective

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

Verification

We interviewed Agency personnel, reviewed financial records and reviewed documentation for 69 expenditure transactions charged to OAPP by the Agency from March 2005 to June 2006. We also reviewed the Agency's annual cost report for the period ending June 30, 2006.

Results

Serra appropriately charged expenditures related to their cost reimbursement contract. However, Serra's cost report for their fixed-fee contract contained \$151,967 in unallowable and undocumented expenditures. Specifically, Serra's cost report included:

- \$127,712 for case management services that were recorded twice.
- \$5,054 for pool and roof repairs on leased homes.
- \$5,271 for digital cameras, resident gifts, event tickets, finance charges and court costs and \$6,271 for furniture, linens and property taxes. Serra indicated that these costs were paid through their Residential AIDS Licensed Facility (RALF) grant. However, the charges were included in the Agency's cost report to OAPP.
- \$1,259 for expenditures that were not supported by their accounting records.
- \$6,400 for undocumented mileage expenditures. Serra paid an employee a monthly mileage allowance of \$400 without requiring the employee to submit documentation to support the expenditures.

We originally informed Serra that they should repay the County the total questioned costs of \$151,967. Subsequent to our review, County Counsel indicated that the OAPP HIV/AIDS fixed-fee contract did not contain language that would allow the County to recover questioned costs as long as the services were provided.

In addition, Serra reported that the cost report that they submitted to OAPP also included expenditures and revenue related to non-OAPP programs and that revenue from other programs were used to cover most of the questioned costs. According to OAPP, only expenditures and revenue related to the OAPP programs should be listed on the cost report. The cost report that Serra submitted also did not identify expenditures and revenue by program.

We recommend that DPH work with County Counsel to amend Serra's fixed-fee contract and include language to allow the County to recover funds related to questioned costs. DPH should also consider negotiating a line item budget for the fixed-fee contract and validate budget costs against actual costs during the year-end cost reporting period.

Recommendations

DPH management:

4. **Work with County Counsel to amend Serra's fixed-fee contract and include language to allow the County to recover funds related to disallowed and undocumented program expenditures.**
5. **Consider negotiating a line item budget for the fixed-fee contract and validate budget costs against actual costs during the year-end cost reporting period.**

Serra management:

6. **Ensure that only those costs that are allowable, necessary and reasonable in carrying out the purposes and activities of the OAPP program are reported in the annual cost report.**
7. **Maintain supporting documentation for all OAPP expenditures.**
8. **Use a separate cost center for resident expenditures funded by the other grants.**

INTERNAL CONTROLS AND CONTRACT COMPLIANCE

Objective

Determine whether the contractor maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with program and administrative requirements.

Verification

We interviewed Serra personnel and tested transactions in various areas such as cash, expenditures, payroll and personnel.

Results

Serra needs to improve their internal controls over its business operations. Specifically:

- Serra commingled a client's personal funds with their residential bank account. As a result, the client's expenditures paid for by their personal funds were also included in the Agency's cost report to OAPP as program costs and service fees. The County contract requires Agencies to account for non-County funds and costs separately in their accounting ledgers.
- Serra does not require two signatures on checks which is required by the County contract. The second signer should be someone independent from the cash receipts and disbursements processes.

Recommendations

Serra management:

9. **Ensure that residents' personal funds are not commingled with Agency funds.**
10. **Require two signatures on all checks and ensure that the second signer is someone independent from the cash receipts and disbursements processes.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Serra's fixed assets and equipment purchases made with OAPP funds are used for OAPP and that the assets are safeguarded.

We did not perform testwork in this section as Serra did not purchase fixed assets with OAPP funds.

PAYROLL AND PERSONNEL

Objective

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

Verification

We traced the payroll expenditures totaling \$16,000 to supporting documentation. We also reviewed the personnel files of 14 employees assigned to the OAPP program.

Results

Serra's payroll procedures were not always in compliance with the County contract requirements. Specifically:

- The Executive Director did not maintain timesheets and the CFO and Administrative Assistant did not report on their timecard the hours worked each day on the OAPP program. As a result, we were unable to determine whether the salary costs charged to OAPP for these three employees were for program related activities. The County contract requires that hours worked be reported on the timecards, including the Executive Director.
- Agency management did not sign the timecards for two employees. Signatures on employees' timecards certify the accuracy of reported hours worked.
- The personnel files for four (29%) of the 14 employees did not contain documents to support the employees' current salary rates. The County contract requires supporting documentation to be maintained for all program expenditures including employee pay rates.

Recommendations

Serra management:

11. **Ensure all employees, including management, formally document all time spent on OAPP activities.**
12. **Ensure that employees' timecards indicate the total hours worked each day by program.**
13. **Ensure all employee timecards are approved in writing by management.**
14. **Ensure each personnel file contains the employee's authorized salary rate approved by management or Board of Directors.**

COST ALLOCATION PLAN

Objective

Determine whether the Serra's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

Results

Serra did not prepare a Cost Allocation Plan. Instead, the Agency used percentages determined by budgeted revenue to distribute their administrative costs to OAPP. Using budgeted revenue to allocate costs is not an acceptable method of allocating costs because it does not ensure that shared costs are allocated to the programs that benefited from the indirect costs. The County contract requires that a written cost allocation plan be prepared and that it include reports, studies, statistical surveys, and any other information used by contractor to identify and allocate indirect costs among all of its programs using some direct cost base.

Recommendation

15. Serra management ensure that a Cost Allocation Plan is developed as required by the County contract.



Providing homes and hope for adults and children living with HIV/AIDS

May 23, 2008

To: J. Tyler McCauley
Auditor-Controller

From: Raul Pavia

Subject: Serra Ancillary Care Corporation – Office of AIDS Programs and Policy

Dear Mr. McCauley,

Below are our comments and responses to your audit report. I have listed them in the order you listed your comments and recommendations in the report.

CASH

Response to Recommendation 1. The bank reconciliations are performed by the CFO who reports to the Executive Director. For the sake of internal control, the CFO does not have check signing authority nor does he deposit funds in the checking accounts. In addition, on checks over \$5,000, a board member must also sign. Furthermore, not only do the external auditors review the bank reconciliations, but various government auditors that audit our accounts also review. We consider the internal controls adequate. However, we will design and implement a system whereby the Board Treasurer (or Executive Director in their absence) will review bank reconciliations performed by the CFO.

REVENUE

Response to Recommendation 2 & 3. The Serra Project has submitted a fee determination system that has been reviewed and approved by OAPP and is in compliance with the CARE Act. We have implemented the new system.

EXPENDITURES

Response Unallowable Cost Comment

Since these comments refer to the Annual Cost Report, we would like to state for clarification that our contract is a fee-for-service contract. We bill OAPP as per contract

and our billing is correct, as stated in your report. We neither charge, bill nor request funds from OAPP by means of the Cost Report. As it is stated in the Department of Health Services AIDS Programs Contract Financial Handbook, "the cost report, for Contractors who provide services on a fee-for-service basis, serves as a basis for evaluating the Contractors' prior year rates." It is not meant as a charging or billing mechanism. Moreover, based on the form provided to us, we include all program cost and concomitant revenue. In other words, although cost might be funded not by OAPP but by RALF, HOPWA, or private contributions, we included them in the Cost Report. As to the specific points mentioned:

Serra did not charge or bill OAPP \$127,712 for Case Management services twice. There was an error in the Cost Report; however, the Cost Report is not a mechanism for billing or payment. The error will be corrected and the report will be re-submitted to OAPP.

Serra did not charge or bill OAPP \$5,054 for repairs but did include them in the cost report. The pool repairs and maintenance are Serra expenses since we have opted to have this recreational activity available to the client. It is our choice to have the pool. We pay for minor repair expenses and for damages made by client. These are paid in part by RALF and private contributions.

Serra did not charge or bill OAPP \$6,271 in unallowable linens, furniture, and property taxes but did include them in the cost report. Linens are billed to RALF and HOPWA. The small property taxes are corporate expenses.

Serra did not bill or charge OAPP \$5,271 for the expenses listed but did include them in the cost report. The digital camera, resident gifts, event tickets are paid by RALF and private contributions. The small bank fees are paid by corporate funds.

Concerning the inclusion of these cost in the cost report, we included them along with the \$88,960 revenue we receive from RALF and the \$182,799 revenue we received from HOPWA. In other words, we included all program cost and all program revenue as required by the report. You also state that we did not use a separate cost center to account for RALF. However, this does not mean that we cannot identify such costs. We included them along with the RALF revenue because that is what we thought was required. If the cost report that we submitted was not the one required, we shall submit another based on a different criteria if it is requested.

Response Undocumented Costs Comment and Recommendations 4-8

All our cost are documented and recorded in the general ledger. The \$1,259 refers to the cost report. It does appear that there is either an error in the cost report by that amount or that adjustments were made to the general ledger subsequent to the preparation of the cost report. If requested, we will submit a revised cost report as stated above.

The mileage charges of \$400 are a monthly mileage allowance for the Director of Group Homes. In that capacity, he travels frequently to the two Los Angeles Houses for

supervision and program reasons. We opted to pay him with a monthly allowance instead of actual cost reimbursement or a mileage allowance. The Federal regulations state that these costs could be reimbursed on an actual cost basis or per diem basis or a mileage basis or a combination; this was the basis for our policy. However, we are presently requiring that all employees, including the Director of Group Homes, that receive mileage reimbursement to submit documentation in support of the expenses.

Recommendations

Response to Recommendation 4. Serra management will provide any reports or information that OAPP Finance or County Counsel request. However, we do not feel that we have disallowed cost.

Response to Recommendation 5. This recommendation is directed to DPH management. However, as the auditors report states, Serra has incurred \$423,067 more in operating cost that can be used to offset these costs.

Response to Recommendation 6. We shall prepare whatever cost report OAPP, the County of Los Angeles, or the Federal government requires. The present cost report requires us to be all inclusive. By that it is meant that we report all revenue and all expenses. The fact that an expense is not allowable does not mean it is not reasonable or necessary for our program. Funeral expenses are an example. We do use different financing sources to finance these cost and disclose them in this report. If the requirement is to prepare a report based solely on OAPP cost and not total cost, we shall do this at the request of OAPP.

Response to Recommendation 7. We have supporting documentation for all our expenditures as recorded in our accounting records which includes OAPP expenditures.

Response to Recommendation 8. We establish cost centers based on the internal and external needs. For example, in the CHOISS program we have nine (9) cost centers. We will activate old or establish new cost centers based on needs.

INTERNAL CONTROLS AND CONTRACT COMPLIANCE

Response to Recommendation 9. Concerning your comment that Serra commingles client personal funds with petty cash, this is a particular case. This refers to a wheel chair restricted, hospice client whose family contributed from \$200 to \$300 per month for personal expenses such as haircuts, manicures, and other similar expenses. This is no longer the case since the client has died and we have no other such cases. Our policy is to account for all monies received by the agency; therefore, the monies received were recorded. We disburse monies for the expenditures some of which may come from petty cash such as haircuts. Although we do not have a separate sub-ledger for these revenue and expenscs, there is no commingling of funds. Furthermore, these funds are too small for us to establish an elaborate accounting system. Yet, it is within the spirit of the OAPP contract for us to do this for a client in this situation. If this should occur in the future,

we shall consider the possible accounting procedures at that time. Concerning the cost report, both the income and expense were included. Therefore, it is a wash. However, we agree that the personal funds should have been excluded from the cost report.

Response to Recommendation 10. Concerning check signatures, our policy is one signature on checks up to \$5,000 and two signatures on any amount above that. The second signer is a board member and completely independent. We feel that this policy satisfies our internal control. However, we welcome a discussion of this policy with OAPP.

PAYROLL AND PERSONNEL

Response to Recommendation 11. All employees except management and the administrative assistant document all time spent on OAPP activities. Management and administrative personnel time are allocated based upon a predetermined rate. We have begun completing timesheets for administrative staff.

Response to Recommendation 12 and 13. Except for administrative personnel, all employees' timecards indicate total hours worked by program. It is our policy that the supervisor sign employee time cards. This is being enforced.

Response to Recommendation 14. It is our policy that the authorized salary be filed in the employee personnel file. This is being enforced.

COST ALLOCATION PLAN

Response to Recommendation 15. We do have a cost allocation plan for indirect expenses that was submitted to OAPP. However, the allocation plan submitted is not as detailed as this report recommends. We will revise our cost allocation plan taking these comments into account.