COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

October 14, 2005

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **REPORT ON NAVIGANT CONSULTING, INC. INVOICES FOR WORK AT KING/DREW MEDICAL CENTER (Board Agenda 9/27/05 Item 33-C)**

At the September 27, 2005 meeting, your Board instructed the Auditor-Controller and the Department of Health Services (DHS) to review all invoices submitted by Navigant Consulting, Inc. (Navigant) for work performed at King/Drew Medical Center (KDMC). The request was based, in part, on a review of Navigant's travel expenses published by the Los Angeles Times, which indicated that approximately $300,000 in travel expenses appeared questionable.

We reviewed the approximately $1.3 million in travel expenses billed by Navigant from the beginning of the contract, November 1, 2004, through June 30, 2005. We initially identified $461,188 in expenses that appeared to be questionable. We then compared the questioned costs to the contract and County travel policy, and discussed allowable travel costs with County Counsel. On October 5, 2005, Navigant's Chief Executive Officer requested a meeting to discuss the questioned costs and pledged his firm's cooperation and willingness to provide additional information to resolve all questioned costs. We subsequently met with Navigant management to discuss the questioned expenses and obtain additional documentation.

Our review indicates that $206,131 (45%) of the $461,188 in expenses we initially questioned are not reimbursable. For example, we disallowed travel costs where Navigant staff traveled from Los Angeles to locations other than their principal residence such as trips to Hawaii and second homes (alternative travel) and spouse travel. In addition, we disallowed some expenses billed by Navigant for allowable travel, where Navigant spent more on the travel than the contract and/or County policy allow. For example, Navigant billed the County for some first class/business class air travel, and

for upgraded rental cars. In these cases, we reduced the amount to be paid to Navigant to reflect the contract and/or County allowable costs (e.g., coach airfare, etc.).

Based on our review, approximately $1.1 million in travel expenses billed by Navigant is reimbursable. It should be noted that Navigant has an additional $33,348 in allowable incidental travel expenses from November 2004 through June 30, 2005 that have not been billed to the County. Navigant plans to bill the County for these additional allowable incidental travel expenses.

Our review indicates that, while Navigant billed the County for some costs we determined to be in error or unallowable in terms of the nature and amount of billings, we found no indication that Navigant intentionally overbilled the County. Most of the unallowable costs were primarily due to differences between the County's and Navigant's travel/expense policies.

We discussed the results of our review with Navigant's corporate finance staff. They indicated agreement with our conclusions regarding allowable and unallowable costs. Navigant indicated that the unallowable costs were either billed to the County because of differences between the County's policy and Navigant's normal expense policy, or were billed to the County in error. Navigant has agreed that future invoices, starting with July 2005, will only include allowable costs in conformity with our review. DHS has informed Navigant that the County will only reimburse Navigant for expenses that we approved based on our review.

Because of the number of expense items we initially questioned and reviewed, we have not attached copies of the specific expenses included in our review. If you would like more detail on the expenses or have any other questions, please call me, or your staff may contact Jim Schneiderman at (626) 293-1101.

JTM:MMO:JS

c: David E. Janssen, Chief Administrative Officer
Thomas L. Garthwaite, M.D., DHS
William M. Goodyear, CEO, Navigant Consulting, Inc.
Raymond G. Fortner, County Counsel
Violet Varona-Lukens, Executive Officer
Audit Committee
Public Information Office