COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

MARIA M. OMS
CHIEF DEPUTY

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JUDI E. THOMAS

February 26, 2010

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **CLONTARF MANOR, INC. CONTRACT COMPLIANCE REVIEW – A DEPARTMENT OF MENTAL HEALTH SERVICE PROVIDER**

We completed a program and fiscal contract compliance review of Clontarf Manor, Inc. (Clontarf or Agency), a Department of Mental Health (DMH) service provider.

Background

DMH contracts with Clontarf, a private for-profit organization that provides services to clients in Service Planning Area 7. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. The Agency's headquarters is located in the Fourth District.

DMH paid Clontarf on a cost reimbursement basis between $2.02 and $4.96 per minute of staff time ($121.20 to $297.60 per hour) for services or approximately $994,000 for Fiscal Year (FY) 2007-08 and approximately $1 million for FY 2008-09.

Purpose/Methodology

The purpose of our review was to determine whether Clontarf complied with its contract terms and appropriately accounted for and spent DMH program funds providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed Agency staff.

Results of Review

Clontarf billed DMH $1,005,663 in questioned costs ($179,006 unallowable expenditures, $825,985 unsupported expenditures and $672 program overbillings), did not sufficiently document program services and did not always comply with other County contract requirements. Specifically, Clontarf:

Program Review

- Did not adequately describe the symptoms and behaviors exhibited by the client to support the Agency's clinical diagnosis for eight (47%) of the 17 clients sampled on their Assessments.

- Did not complete the Client Care Plans for 14 (82%) of the 17 clients sampled in accordance with the County contract. Specifically, the Client Care Plans did not contain specific goals.

- Did not complete 13 (52%) of the 25 Progress Notes sampled in accordance with the County contract. Specifically, 13 Progress Notes billed for the mental health services did not describe what the clients or service staff attempted and/or accomplished towards the clients' goals.

- Did not provide documentation to support 480 (26%) of the 1,820 minutes sampled resulting in an overbilling of $672.

Unallowable Expenditures - $179,006

- Charged DMH $62,859 for non-DMH program costs during FY 2007-08. Clontarf charged DMH $60,909 for meals provided to the Agency's non-DMH residential program and $1,950 for repairing two vehicles that were not identified as vehicles used for the DMH program.

- Charged DMH $18,039 for insurance liability related to the subsequent fiscal year.

- Charged DMH $1,260 for a billing error to a consultant.

- Charged DMH $77,697 for five employees who did not work on the DMH program during FY 2007-08.

- Charged DMH $19,151 twice for the same employee during FY 2007-08.

Unsupported Expenditures - $825,985

- Over allocated $61,579 to the DMH program for shared costs in their FY 2007-08 Cost Report.

- Charged DMH $101,346 during FY 2007-08 for 100% of the shared program costs instead of allocating the costs among the applicable programs.

- Entered into a less-than-arms-length lease and did not provide documentation to support the fair market value or actual costs incurred by the Agency. The County contract requires agencies to comply with the federal cost principles issued by the Office of Management and Budget (OMB) Circular A-122. The OMB Circular A-122 states that a less-than-arms-length lease is when one party to the lease agreement is able to control or substantially influence the actions of the other and allows agencies to charge only up to the amount that would be allowed had the title to the property vested in the organization (actual costs). The Agency's Executive Director who is also the Board Chair owns the property.

  The total lease amount charged to DMH was $210,000. Clontarf has not provided the actual costs incurred by the Executive Director or the fair market value of the facility. In addition, the Agency charged DMH for 100% of the facility even though the Agency's non-DMH residential program also uses the facility.

- Charged DMH $19,328 paid to two independent contractors. However, the Agency did not provide written agreements or contracts. In addition, the contractors' invoices did not include billing hours or the rates charged for their services.

- Charged DMH $16,107 for unsupported program expenditures. Clontarf did not maintain external receipts or invoices to validate $13,442 in credit card purchases and $2,665 in automobile and office related expenditures charged to the DMH program.

- Overbilled DMH $6,823 in unsupported depreciation costs.

- Charged DMH 100% of the $410,802 in salaries paid to ten employees even though the employees worked on both DMH and non-County programs during FY 2007-08. Clontarf did not provide documentation to support the amount of time spent on DMH versus non-DMH programs.

The total questioned costs exceeded the maximum contract amount of $993,684 by $11,979 ($1,005,663 - $993,684) because we tested the expenditures recorded in Clontarf's FY 2007-08 accounting records and Cost Report. Clontarf's Cost Report indicated the Agency's total DMH expenditures for FY 2007-08 as $1,423,711. Based on the amount of questioned costs, if the Agency does not commit to implement all

recommendations, DMH needs to work with County Counsel to exercise the contractual remedies that are available to penalize the Agency for not correcting the areas of non-compliance.

Clontarf also recorded $99,530 in their Cost Report for "management fees" during FY 2007-08. The County contract does not allow Agencies to bill for management fees (e.g., profit). Since Clontarf's total expenditures on their Cost Report were more than their contract amount DMH did not pay the management fees. However, Clontarf needs to remove management fees as a DMH expenditure on their Cost Reports to ensure that these fees are not inadvertently reimbursed in the future.

In addition, Clontarf did not perform criminal clearances for nine (45%) of the 20 employees. Subsequent to our review, Clontarf provided criminal clearances for two of the nine employees.

We have attached the details of our review along with recommendations for corrective action.

Review of Report

We discussed the results of our review with Clontarf and DMH. In the attached response from Clontarf's Certified Public Accountant, Clontarf agreed or partially agreed with some of our findings related to the questioned costs (i.e., meal costs, payroll costs for non-DMH or duplicate staff charges, unsupported depreciation and credit card purchases) totaling $180,687. However, Clontarf disagreed with 11 (50%) of our 22 recommendations and indicated that they provided support for most of the questioned costs. However, we provided the Agency with a detailed description of the findings and a listing of missing documents on several occasions. In instances where the Agency provided adequate supporting documentation, we adjusted our report accordingly. In addition, the Agency's explanations and statements alone are not adequate supporting documentation. Due to the sensitive and personal information provided by Clontarf in attachments A, B and C, we only attached their management response letter to our report.

In addition, Clontarf questioned the procedures/methods we used to determine compliance with the contract. For example, they believe that we should not have reviewed 100% of the expenditures. However, as we discovered out-of-the-norm questionable or unallowable costs, we began to review further and eventually reached the majority of the Clontarf's expenditures.

The total questioned costs exceeded the contract amount because the DMH expenditures reported in Clontarf's accounting records and Cost Report exceeded their contract amount.

We thank Clontarf management for their cooperation and assistance during this review. DMH indicated that they are in agreement with our findings and recommendations and will work with Clontarf to resolve the questioned costs. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Patrick J. Weston, Chair of the Board and Executive Director, Clontarf Manor
Public Information Office
Audit Committee

DEPARTMENT OF MENTAL HEALTH
CLONTARF MANOR, INC.
FISCAL YEARS 2007-08 AND 2008-09

BILLED SERVICES

Objective

Determine whether Clontarf Manor, Inc. (Clontarf or Agency) provided the services billed in accordance with their County contract with the Department of Mental Health (DMH).

Verification

We judgmentally selected 25 billings totaling 1,820 minutes from 40,484 service minutes of approved Medi-Cal billings from May and June 2008. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 1,820 minutes represent services provided to 17 program participants.

Results

Clontarf did not provide documentation to support 480 (26%) of the 1,820 minutes sampled. The undocumented billings totaled $672. We had similar findings during our prior monitoring review. Specifically, Clontarf billed:

- $462 for 330 minutes for the Targeted Case Management. However, the Progress Notes did not describe linkage, consultation or placement.

- $210 for 150 minutes for mental health services without documentation to support the services in the client's chart.

In addition, the Agency did not always complete Assessments, Client Care Plans and Progress Notes in accordance with County contract requirements.

Assessments

Clontarf did not adequately describe the symptoms and behaviors exhibited by the client to support the Agency's clinical diagnosis for eight (47%) of the 17 clients sampled on their Assessments. An Assessment is a diagnostic tool used to document the clinical evaluation of each client and establish the client's mental health treatment needs. The County contract requires Agencies to follow the Diagnostic and Statistical Manual of Mental Disorders (DSM) when diagnosing clients.

Client Care Plans

Clontarf did not complete the Client Care Plans for 14 (82%) of the 17 clients sampled in accordance with the County contract. Specifically, the Client Care Plans did not contain specific goals.

Progress Notes

The Agency did not complete 13 (52%) of the 25 Progress Notes sampled in accordance with the County contract. Specifically, 13 Progress Notes billed for the mental health services did not describe what the clients or service staff attempted and/or accomplished towards the clients' goals.

Recommendations

Clontarf management:

1. **Repay DMH $672.**

2. **Maintain sufficient documentation to support the service minutes billed to DMH.**

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

STAFFING LEVELS

Objective

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency did not provide services that required staffing ratios for this particular program.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine whether Clontarf's treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for four of the five Clontarf treatment staff who provided services to DMH clients during May and June 2008.

Results

Each employee in our sample possessed the qualifications required to deliver the services billed.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash and other liquid assets.

Verification

We interviewed Agency management and reviewed the Agency's financial records. We also reviewed the Agency's July 2008 bank reconciliations for three bank accounts.

Results

Clontarf properly recorded and deposited their revenue in a timely manner. However, the Agency did not resolve reconciling items on their bank reconciliations in a timely manner. Specifically, seven (64%) of the 11 outstanding checks totaling $11,515 were outstanding for more than a year. In addition, the preparer and the reviewer did not sign and date the completed bank reconciliations.

Recommendations

Clontarf management:

4. **Resolve reconciling items timely.**

5. **Ensure that bank reconciliations are signed by the preparer and reviewer and approved by management.**

COST ALLOCATION PLAN

Objective

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

Verification

We reviewed the Agency's Plan and accounting records. We also selected a sample of expenditures from Fiscal Year (FY) 2007-08 to ensure that expenditures were properly allocated to the Agency's programs.

Results

Clontarf did not comply with their Plan and allocated $162,925 in shared program expenditures to the DMH program. Specifically, Clontarf:

- Over allocated $61,579 to the DMH program. Specifically, the Agency's Plan identified $134,213 to be allocated to the DMH program. However, Clontarf allocated $195,792 to the DMH program for shared costs in their FY 2007-08 Cost Report without documentation to support the additional costs. As a result, Clontarf overbilled $61,579 in shared program costs.

- Charged DMH $101,346 for 100% of shared property taxes, utilities, office supplies and equipment lease costs instead of allocating the costs equitable to the benefiting programs.

Recommendations

Clontarf management:

6. **Revise their FY 2007-08 Cost Report to reduce the reported program expenditures by $61,579 in unsupported costs and repay DMH for any excess amount received.**

7. **Reallocate the $101,346 between DMH and non-DMH programs and revise their FY 2007-08 Cost Report to reduce the reported program expenditure by the non-DMH amount.**

EXPENDITURES

Objective

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

Verification

We reviewed financial records and documentation to support 39 non-payroll expenditure transactions totaling $125,598 charged to the DMH program during FY 2007-08.

Results

Clontarf charged DMH $427,123 in questioned costs. Specifically, Clontarf charged DMH:

Unallowable Expenditures

- $99,530 for management fees for FY 2007-08. Agency management indicated on their budget that the Agency would accrue 10% of revenue as management fees if their costs were less than contract amounts. However, DMH's contract does not allow Agencies to charge management fees.

- $60,909 for meals provided for the Agency's non-DMH residential program.

- $18,039 for insurance liability related to the subsequent contract period. The County contract does not allow agencies to charge the expenditures incurred outside the agreement period.

- $1,950 for repairing two vehicles that were not on the Agency's depreciation schedule. The repair invoices for two vehicles indicated that a '01 Chrysler Voyager and a '94 Nissan Altima were repaired. However, the Agency's depreciation schedule and automobile sales contracts indicate that the vehicles assigned to the DMH program are a '05 Chrysler Town & Country and a '06 Nissan Altima.

- $1,260 for a billing error to a consultant.

Unsupported Expenditures

- $210,000 for a facility leased from a related party. Clontarf leases a facility from the Executive Director who is also the Board President. Office of Management and Budget Circular A-122 states that a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to, those between an organization and a director, trustee, officer, or key employee of the organization or

his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. Clontarf has not provided the actual costs incurred by the Executive Director or fair market value of the facility. In addition, the lease was charged 100% to DMH when the facility was shared with the Agency's non-DMH residential program.

- $19,328 for accounting services provided by two independent contractors not supported with written contracts or agreements. Their invoices did not include the hours worked or the rates charged for their services. Agency management indicated that the Agency had verbal agreements with the contractors. Auditor-Controller (A-C) Handbook A.3.2 requires consultant services to be supported with contracts, time and attendance records, billing rates, invoice or other supporting documentation detailing the nature of services provided. In addition, Clontarf charged DMH for 100% of the accounting services instead of allocating the costs to all benefited programs.

- $16,107 for unsupported program expenditures. Clontarf did not maintain external receipts or invoices to validate $13,442 in credit card purchases and $2,665 in automobile and office related expenditures charged to the DMH program. A-C Handbook B.2.4 requires all credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase.

During the contract year, DMH pays Clontarf a negotiated rate for their cost reimbursement contract. At the end of the contract year, if the Agency's revenues exceed the actual expenditures on their Cost Report, the Agency must repay DMH for the excess amount received.

Recommendations

Clontarf management:

8. **Provide documentation to support the lower of actual cost or fair market value for the leased property and repay DMH for the overbilled amount.**

9. **Revise their FY 2007-08 Cost Report to reduce the reported program expenditures by $181,688 ($99,530 + $60,909 + $18,039 + $1,950 + $1,260) in unallowable expenditures and repay DMH for any excess amount received.**

10. **Provide supporting documentation for the $35,435 ($19,328 + $16,107) in unsupported costs or reduce their FY 2007-08 Cost Report.**

11. **Ensure that only allowable program expenditures are charged to the DMH program.**

12. **Ensure that program expenditures are supported by adequate documentation.**

13. **Record the program expenditures in the program year in which they incur.**

FIXED ASSETS

Objective

Determine whether fixed asset depreciation costs charged to DMH program were allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed staff and reviewed the Agency's financial records related to fixed assets. In addition, we reviewed four fixed assets with depreciation costs of $9,614 that the Agency charged to the DMH program during FY 2007-08.

Results

Clontarf billed DMH $6,823 in unsupported depreciation costs. Clontarf's depreciation schedule reported $9,614 in depreciation for FY 2007-08. However, Clontarf billed DMH $16,437 resulting in an over billing of $6,823 ($16,437 - $9,614).

In addition, Clontarf did not maintain a listing of fixed assets as required by the County contract. A proper listing would include the assigned individual, an item description, serial number or unique identifier, acquisition cost, sources of funding and the program(s) where the asset is used. In addition, Agency management could not recall when their last inventory count was performed.

Recommendations

Clontarf management:

14. **Provide supporting documentation for the $6,823 in unsupported costs or reduce their FY 2007-08 Cost Report.**

15. **Require staff to maintain a complete and accurate listing of fixed assets including the item description, serial number, date of purchase, acquisition cost and sources of funding.**

16. **Ensure that staff perform physical inventory counts annually.**

PAYROLL AND PERSONNEL

Objective

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

Verification

We interviewed staff and reviewed the payroll expenditures for 20 employees totaling $22,832 charged to the DMH program for the pay period ending June 15, 2008. We also reviewed their personnel files.

Results

Clontarf charged DMH for 100% of their administrative and non-DMH staff payroll expenditures throughout the year. During FY 2007-08, we identified $564,550 in questioned payroll costs charged to the DMH program. Specifically, Clontarf charged DMH:

Unallowable Expenditures

- $77,697 for five employees who did not work on the DMH program. The five employees worked entirely for the Agency's non-DMH residential program. The questioned costs include their payroll expenditures, payroll taxes and employee benefits.

- $19,151 twice for the same employee. The Agency billed DMH for the employee's payroll expenditures under direct salaries and again as housekeeping costs.

Unsupported Expenditures

- $296,014 for 100% of six administrative staff's payroll expenditures, including the Executive Director and four of his family members. Clontarf did not allocate the administrative staff's payroll expenditures to all programs in an equitable basis. In addition, none of the five related employees completed timecards or time reports to support their payroll expenditures.

- $70,770 for 100% of four employees' payroll costs who worked on multiple programs. In addition, their timecards did not indicate the actual hours worked each day by programs.

- $44,018 for payroll taxes and employee benefits related to the payroll costs of the ten shared staff (six administrative and four shared direct staff) mentioned above.

Criminal Clearance and Incomplete Personnel Files

Clontarf did not maintain appropriate personnel files as required by the County contract. Specifically:

- Nine (45%) of the 20 personnel files did not contain documentation that the Agency performed criminal clearances for their employees. Subsequent to our review, Clontarf provided criminal clearances for seven of the nine employees.

- Clontarf did not maintain personnel files for their administrators who are the wife and the son of the Executive Director.

- None of the 20 personnel files contained the employees' salary rates.

- Twelve (60%) of the 20 personnel files did not include employee's job description. Subsequent to our review, Clontarf provided job descriptions for ten of the 12 employees.

- Six (30%) of the 20 personnel files did not contain documentation related to job title, qualification requirements and whether the employee met the qualification for the position. Subsequent to our review, Clontarf provided documentation for three of the six employees.

- Seven (35%) of the 20 personnel files did not contain documentation to verify the employees' eligibility for employment. Five of the seven personnel files did not contain Employment Eligibility Verification forms and two personnel files contained expired residency cards. Subsequent to our review, Clontarf provided employment eligibility documentation for five of the seven employees.

As indicated earlier, DMH pays Clontarf a negotiated rate for their cost reimbursement contract during the contract year. At the end of the contract year, if the Agency's revenues exceed the actual expenditures on their Cost Report, the Agency must repay DMH for the excess amount received.

Recommendations

Clontarf management:

17. **Revise their FY 2007-08 Cost Report to reduce the reported program expenditures by $96,848 ($77,697 + $19,151) in unallowable expenditures and repay DMH for any excess amount received.**

18. **Allocate the $410,802 ($296,014 + $70,770 + $44,018) between DMH and non-DMH programs and revise their FY 2007-08 Cost Report to reduce the reported program expenditure by the non-DMH amount.**

19. **Ensure that criminal clearances are performed for all staff working on the County contract and maintained on file.**

20. **Maintain a personnel file for each employee containing all the required documentation.**

COST REPORT

Objective

Determine whether Clontarf's FY 2007-08 Cost Report reconciled to the Agency's financial records.

Verification

We traced the Agency's FY 2007-08 Cost Report to the Agency's general ledger.

Results

Clontarf reported $1,423,712 as their DMH program expenditures for FY 2007-08 on their Cost Report. However, as previously indicated, the Agency significantly overbilled DMH for unsupported and unallowable expenditures during FY 2007-08. Clontarf needs to revise the FY 2007-08 Cost Report to reflect the actual and allowable costs incurred for the DMH program and repay DMH for excess amount received.

Recommendation

21. **Clontarf management ensure that their Cost Reports include only allowable and documented expenditures.**

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 FY 2006-07 monitoring review were implemented. The report was issued on May 2, 2007.

Results

Our prior monitoring report contained four recommendations. Clontarf implemented one recommendation, did not implement two recommendations, and one recommendation is

no longer applicable. As previously indicated, the outstanding findings related to recommendation 2 and 3 are contained in the report.

Recommendation

22. Clontarf management implement the outstanding recommendations from FY 2006-07 monitoring report.

KATZ ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
5567 RESEDA BLVD., SUITE 104, TARZANA, CALIFORNIA 91356
(818) 344-0274
FAX (818) 344-1446

26 October 2009

Wendy L. Watanabe, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
500 W. Temple Street, Room 525
Los Angeles, CA 90012-3873

RE: Clontarf Manor, Inc.
Contract Compliance Review

Dear Ms. Watanabe:

In response to your email of September 30, 2009, regarding your final draft report, we respectfully respond as follows:

General Comments:

Insofar as this report is called a Contract Compliance Review, we question the methods, procedures and statements by the persons performing such "Compliance Review". From the start of this, the Provider was told that this was an "audit" in conformity with the terms and conditions of the County contract. The procedures and testing were more along the lines of a 100% **audit**, not a Compliance Review. In fact, the "auditors" stated that they had indeed vouched **every** expense of the Provider for the fiscal year. Furthermore, the "auditors" required the Provider to present for their inspection and questioning every employee in the employment of the Provider--whether or not they worked on the applicable County contract or not. This even went so far as requiring the Provider to insist that employees on vacation return to be interviewed by the "auditors". Additionally, the "auditors" went so far as to call numerous vendors questioning whether or not those expenses applied to the Program. They questioned the vendors to determine if the costs were actually for the specified location, or the Weston's personal property. In every case, the vendors stated to the auditors that the presented invoices were business related.

Materiality was never defined, nor taken into account in the "audit". Per the Government Auditing Standards ("GAS") and Circular A-133 ("A-133"), there needs to be a clear definition of materiality, even though it is defined somewhat differently, although in many respects, similarly in terms of an "audit" for a governmental audit.

Furthermore, the "auditors" were not aware of basic, common business practices. When the lease of the real property was explained to the "auditors" as a triple-net lease, neither "auditor" had the fundamental knowledge of this concept. Information pertaining to the cost of the property was provided to the "auditors", yet the report reflects otherwise?

Unallowable Expenditures

* **Issue**: Management Fees

Response: In the as-submitted Budget, the Provider included a "management fee", not "profit". As reflected on the as-submitted budget, the management fee is limited to 10% of the County contract amount, conditioned upon the Provider's costs being under the total contract amount. This 10% management fee has been reflected on the budget, as well as the cost reports, since the inception of the Provider's contract with the County. In the budget, due to the aforementioned limitations, the 10% has been included, and then eliminated due to the projected costs exceeding the contract amount. The same principal essentially applies to the as-filed cost reports, since costs have always exceeded the contract amount. Therefore, in fact, this statement by the auditor is irrelevant.

* **Issue**: Charged DMH for Non-DMH Program Costs - Meal Costs

Response: An error was made in the preparation of the cost report. In prior years, the Provider had programs that included full or part-time programs that provided meals. The Provider will not include these expenditures in future cost reports.

* **Issue**: Charged DMH for Non-DMH Program Costs- Auto Costs

Response: The auditor was in error in this proposed adjustment. First, the adjustment is immaterial in accordance with all recognized Generally Accepted Auditing Principals. Second, had the auditor inquired further, it would have been understood that the autos in questions were autos owned and operated by the Provider in the everyday operations of the Provider. **No further corrective plan is required.**

* **Issue**: Employees not working in the DMH Program and Related Costs

Response: An error was made in the preparation of the cost report. The Provider agrees to attempt to better review the allocation of employees to ensure proper allocation between Program and non-Program costs.

* **Issue:** Charged DMH Twice for Same Employee

Response: An error was made in the preparation of the cost report. The Provider agrees to attempt to better ensure that correct mathematical errors are not made in the preparation of the cost report.

* **Issue:** Charged DMH for Insurance Liability related to Subsequent Fiscal Year

Response: The auditor was in error in this proposed adjustment. First, the adjustment is immaterial in accordance with all recognized Generally Accepted Auditing Principals. Second, the auditor failed to recognize costs for the current year that were included in the prior year's cost report. Had the auditor taken the additional step, it is doubtful that this adjustment would be proposed. The provider will make every effort to make sure that prepaid expenses are calculated in a correct manner.

* **Issue:** Charged DMH for a Billing Error to a Consultant

Response: While the auditors noted that there was an error made by a consultant on a single bill, they failed to mention that the Provider was undercharged (as stated to the undersigned by the auditor) and, therefore, would negate the impact of this adjustment by the auditor. Additionally, the adjustment is immaterial in accordance with all recognized Generally Accepted Auditing Principals.

Unsupported Expenditures

* **Issue:** Facility Leased from Related Party

Response: The auditor is correct in principal in the adjustment. However, the adjustment is based upon 42CFR, not A-122. However with that being said, supporting evidence was provided to the auditor for both the interest and depreciation expense for the period. We have enclosed a copy of the bank's interest schedule for your records. Depreciation expense was previously provided to the auditor **(Attachment A).** As for future cost reports, the Provider agrees to make every attempt to reflect actual costs.

* **Issue:** Accounting Services charged to DMH

Response: In principal we concur with parts of the auditor's conclusions, in that the accounting bills do not reflect hours or rates. However, the auditor is

incorrect in stating that there is not a contract of agreement between Vasili Milonas and Katz Accountancy Corporation ("Katz") and the Provider. In both instances, the Provider has entered into oral agreements with both Milonas and Katz. These agreements are equally binding as written agreements. Furthermore, the bills for both Milonas and Katz have been approved and paid by officers of the Provider. The auditors were provided with and have in their documentation copies of bills from both Milonas and Katz.

* **Issue:** Unsupported Program Expenditures (Credit Card)

Response: The Provider was not aware of the County requirement (to attach all receipts to credit card bills) in the contract until the audit performed at the County's request, by a County-contracted CPA firm, for the prior fiscal year. This requirement was not understood by the Provider until after the end of the FYE 6/30/08. While the actual credit card statements were provided to the auditors, the receipts were not. The Provider has taken steps to ensure that for the current fiscal year that they will comply with the County requirement.

* **Issue:** Shared Costs Allocated to DMH

Response: The costs reflected in the cost report were correctly derived from the financial statement prepared by Milonas (and supporting sub-ledger) and were provided to the auditors in support thereof. The auditors erroneously relying upon a schedule not used in preparation of the cost report. During the course of the audit, these facts were discussed with the auditors and properly explained. The costs reflected in the cost report have been supported by invoices and appropriate documentation. The documents wrongly used, as well as the financial statement, are attached as ***"Overallocated Costs".***

* **Issue:** Unsupported Depreciation Costs

Response: There is no basis in this finding insofar as depreciation schedules were provided to and received by the auditors. It is agreed that an error was made in erroneously including $6,823 of depreciation. However, the percentage for which the County was responsible was reduced by the Provider by an allocation based upon square footage. Additionally, the contention that $8,200 of depreciation costs for the autos is in error. The Provider utilizes three autos for the program. As reflected in the attachment, ***"Auto Expenses"*** (Internal Revenue Service Publication 463), on Page 15, actual expenses for business autos is allowed. The Provider maintains these three autos strictly for the Program. Personal use of these autos is not allowed, nor does it occur.

* **Issue:** Payroll Taxes & Employee Benefits for 11 Shared Staff

Response: In reviewing the specific employees, a portion of their salaries should have been allocated to non-Program related programs. As reflected in the attachment entitled ***"Shared Payroll",*** certain percentage of four of the five employees should have been eliminated. The total elimination equals $39,593 (plus related employee benefits). The Provider agrees to attempt to better review the allocation of employees to ensure proper allocation between Program and non-Program costs.

* **Issue:** Charged DMH for Shared Program costs

Response: Based upon the information provided, there is insufficient documentation with which to respond adequately. An attempt was made to reconcile this amount based upon the allocated costs in the as-submitted trial balance, general ledger and financial statement to no avail. Review of the auditor's workpapers in support thereof further provided no basis for this adjustment. As such, we are unable to respond.

Personnel Files

* **Issue:** Did not perform Criminal Clearances

Response: The auditor was unaware of the minimum requirements for licensing by the California Department of Social Services (DSS). The DSS requirements are that all employees employed in a licensed facility must have criminal clearance. As reflected on **Attachment B**, each of the clearances were obtained prior to the audit. **No further corrective plan is required.**

* **Issue:** Did not Maintain Personnel Files for the Administrators

Response: The auditor is in error as those files are available at the facility. **No further corrective plan is required.**

* **Issue:** None of the 20 Personnel Files contained Salary Rates

Response: This information is not required to be in the personnel files. **No further corrective plan is required.**

* **Issue:** Twelve of the 20 Personnel Files did not contain Job Descriptions

Response: There is a discrepancy between the number of employees without job descriptions and what was provided to the Provider. In reviewing the information supplied, it appears that the correct number is seven employees. The requested job descriptions are enclosed as **Attachment C**.

* **Issue:** Three of the 20 Personnel Files did not contain Position-Related Documentation

Response: This information is not required to be in the personnel files. However, the information regarding the requested employees is submitted to DMH as part of the Contract. **No further corrective plan is required.**

* **Issue:** Seven of the 20 Personnel Files did not contain Documentation to verify Employment Eligibility

Response: The information regarding employment eligibility for the employees named in the preliminary report are not subject to verification as they were hired by the Provider prior to this requirement being instituted by the Federal Government. In essence, they are "grandfathered in". **No further corrective plan is required.**

Respectfully submitted,
KATZ ACCOUNTANCY CORPORATION

Jerry N. Katz
Certified Public Accountant

JNK:mvh
Enclosure

cc: Margaret Weston