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

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JUDI E. THOMAS

May 17, 2011

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **THE SERRA PROJECT (ALLIANCE FOR HOUSING AND HEALING) - A DEPARTMENT OF PUBLIC HEALTH HIV/AIDS CARE SERVICES CONTRACT PROVIDER – FISCAL REVIEW**

We completed a fiscal review of The Serra Project, which is operated by the Alliance for Housing and Healing (Serra or Agency), a Department of Public Health (DPH) HIV/AIDS care services contract provider. (The Agency was formerly known as Serra Ancillary Care Corporation.) The purpose of our review was to determine whether Serra provided services to eligible participants, and spent funds in accordance with their County contract. We also evaluated the adequacy of Serra's accounting records, internal controls, and compliance with the contract and applicable guidelines. Serra's contract services include providing housing and supervision to individuals infected with HIV/AIDS at four residential care facilities.

At the time of our review, Serra had one fee-for-service contract with DPH's Office of AIDS Programs and Policy (OAPP), and was paid $3,122,642 in OAPP funds from March 2008 to October 2009. Serra's residential facilities are in the First, Second and Fourth Supervisorial Districts.

Results of Review

Serra provided services to individuals who met OAPP eligibility requirements and maintained the required personnel records. Serra also recorded and deposited OAPP payments properly and timely. However, the Agency did not comply with all of the County contract requirements. For example, Serra:

- Did not develop and implement a sliding fee schedule to charge clients based on their ability to pay as required by the County contract.

  Serra's attached response indicates that they will prepare a sliding fee schedule.

- Did not have a written Cost Allocation Plan that included sufficient detail to ensure their indirect expenditures were allocated among programs appropriately.

  Serra's attached response indicates that they will revise their cost allocation methodologies and submit their revised Cost Allocation Plan to OAPP for approval.

- Charged OAPP for undocumented and unallowable Program expenditures, totaling $10,796.

  Serra's attached response indicates that the expenditures were incurred during a different contract term, and that they will ensure that only expenditures incurred during the current contract term are charged to the OAPP Program.

- Did not have documentation to support $1,233 in Program expenditures reported on their Cost Reports.

  Serra's attached response indicates that they will keep a copy of the accounting information used for the Cost Reports.

It should be noted that, for the period reviewed, the OAPP fee-for-service contracts did not include provisions allowing the County to recover the questioned costs identified in this report as long as services were provided. On March 1, 2010, OAPP amended the contract to include a provision that allows the County to collect questioned costs noted in an audit.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Serra and OAPP. The Agency's attached response indicates agreement with our findings and recommendations in our report.

We thank Serra 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:JLS:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer
Jonathan E. Fielding, M.D., Director, Department of Public Health
Brenda Goodman, President, Board of Directors, The Serra Project
Public Information Office
Audit Committee

THE SERRA PROJECT
HIV/AIDS CARE SERVICES
MARCH 2008 TO OCTOBER 2009

SERVICES BILLED/ELIGIBILITY

Objective

Determine whether The Serra Project (Serra or Agency), which is operated by the Alliance for Housing and Healing, provided services to individuals who met the eligibility requirements of the Department of Public Health's (DPH) Office of AIDS Programs and Policy (OAPP). In addition, determine the accuracy of the units of service billed to OAPP.

Verification

We reviewed the case files for 15 Program clients, who received services from September and October 2009 for documentation, to confirm if the clients were eligible for OAPP services. We also traced the number of days the Agency billed OAPP to the supporting documentation.

Results

Overall, Serra's Program clients met the eligibility requirements, and the Agency's daily client attendance records supported the billings to OAPP. However, Serra did not implement a sliding fee schedule to charge clients based on their ability to pay as required by OAPP. OAPP needs to approve the fee schedule after it is developed

Recommendation

1. **Serra management develop and implement a sliding fee schedule to charge clients based on their ability to pay, and ensure that it is reviewed and approved by OAPP.**

CASH/REVENUE

Objective

Determine whether Serra has adequate controls to ensure cash receipts and revenue were recorded properly in the Agency's financial records, and deposited in their bank account timely.

Verification

We interviewed Agency personnel and reviewed their financial records. We also reviewed the Agency's bank reconciliation for October 2009.

Results

Serra had adequate controls to ensure that revenue and cash were recorded properly and deposited timely.

Recommendation

None.

COST ALLOCATION PLAN

Objective

Determine whether Serra's Cost Allocation Plan was prepared in accordance with the County contract, and used to allocate shared Program expenditures appropriately.

Verification

We reviewed a sample of allocated expenditures incurred by the Agency, between March 2008 and February 2009, to ensure that the expenditures were properly allocated among the OAPP Program and the Agency's other, non-County programs.

Results

Serra's Cost Allocation Plan did not include sufficient detail to ensure the expenditures allocated to the OAPP Program were appropriate. The Cost Allocation Plan indicated that they allocated their indirect costs based on direct Program expenditures. Serra allocated $154,358 in indirect costs to OAPP from March 2008 to February 2009. However, the Agency did not provide documentation to support the amount allocated to the OAPP Program based on direct Program expenditures as indicated in the Cost Allocation Plan.

The County contract requires that the Agency to prepare a written Cost Allocation Plan, and that the plan include reports, studies, statistical surveys and any other information used to identify and allocate indirect costs among the Agency's programs. A similar finding was noted in our prior monitoring review.

As previously noted, the OAPP HIV/AIDS fee-for-service contracts for our audit period did not contain language that would allow the County to recover any questioned costs related to the unsupported indirect costs allocated to OAPP. Therefore, OAPP cannot recover undocumented indirect costs charged to the County. However, the recently amended contract now in place will allow the County to recover future questioned costs.

Recommendation

2. **Serra management develop and implement a detailed and equitable Cost Allocation Plan, and allocate indirect costs on a monthly basis in accordance with the Plan.**

EXPENDITURES

Objective

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

Verification

We interviewed Agency personnel, and reviewed financial records and documentation to support 45 Program expenditures, totaling $58,803, from March 2008 through May 2009.

Results

Serra did not have adequate documentation to support $10,796 (20%) of the expenditures reviewed. Specifically, Serra charged OAPP:

- $6,648 for various operating costs, including food, utilities and furniture. However, the Agency did not provide receipts or invoices to support the expenditures.
- $989 for food purchases that were supported by receipt copies, but not original receipts.
- $381 for building supplies for a Program event. However, the Agency could not provide any documentation that indicated the event was related to the OAPP Program.
- $2,400 for replacement of a utilities meter. The expenditure was incurred and paid in 2007, a previous contract term.
- $378 for various items, including clothing and DVDs. The Agency indicated that these were gifts to clients. However, clothing is not allowable under the Health Resource and Services Administration HIV/AIDS Bureau policies. Serra also did not provide documentation that identified the clients who received the items, or whether the costs were related to the OAPP Program.

Although the OAPP HIV/AIDS fee-for-service contracts did not contain language that allowed the County to recover questioned costs as long as services were provided, the County contract does require the Agency to have proper documentation. In addition,

the amended contract now in place will allow the County to recover future questioned costs.

Recommendations

Serra management:

3. **Ensure that only allowable costs are charged to the OAPP Program.**

4. **Maintain documentation for all OAPP expenditures.**

PAYROLL AND PERSONNEL

Objective

Determine whether Serra charged payroll expenditures to the OAPP Program appropriately, and maintained required personnel files.

Verification

We traced payroll expenditures for 13 employees, totaling $58,613, to the personnel files and time records for February 2009. We also reviewed the employees' personnel files.

Results

Serra maintained the required documents in the employees' personnel files, and the salaries of direct Program staff were supported by time records. However, as previously indicated, the Agency was not able to provide us actual costs used in their calculation of shared Program expenditures, including administrative staff salaries.

Recommendation

Refer to Recommendation 2.

COST REPORTS

Objective

Determine whether the Agency's Cost Reports reconciled to the Agency's accounting records.

Verification

We traced the costs in the Agency's February 2009 Cost Report to the Agency's accounting records.

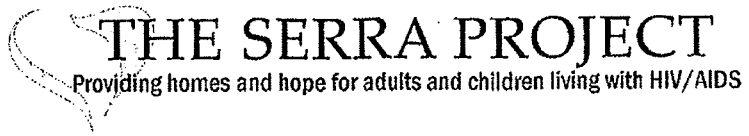
Results

Serra's expenditures reported on their Cost Reports exceeded the amounts recorded in their accounting records by $1,233. The Agency could not explain the reason for the difference.

As previously noted, the prior OAPP HIV/AIDS fee-for-service contracts did not contain language allowing the County to recover questioned costs as long as services were provided. However, proper documentation is required per the County contract. In addition, the current amended contract will allow the County to recover future questioned costs.

Recommendation

5. **Serra management ensure that their Cost Reports are supported by their accounting records before submitting the Cost Reports to OAPP.**



February 16, 2011

To: Wendy L. Watanabe
Auditor – Controller

From: Raul Pavia
Chief Financial Officer

SUBJECT: **Alliance For Housing and Healing, dba The Serra Project Contract Review – A DEPARTMENT OF PUBLIC HEALTH HIV/AIDS CARE SERVICE PROVIDER**

Dear Ms. Watanabe:

Listed below is our response to the recommendations listed in your report.

Recommendation 1 – Client Service Fees. We will revise our client service fee policy to include a sliding fee schedule. This will be forwarded to OAPP for their review.

Recommendation 2 – Cost Allocation Plan. Approximately 92% of our costs are direct program cost not requiring allocation methods. Also, most of the shared costs are also specifically identifiable. The cost allocation method used for the portion of shared cost not specifically identifiable and the indirect costs is based on projected revenue which approximates program costs. As we discussed, we consider this method the most equitable method since of all our operating divisions, this division is the most labor intensive. To use an allocation method based on personnel cost which is one of the recommended cost allocation plan methods would be to over burden OAPP with indirect cost. For example, our CHOISS program has 8 direct persons as opposed to 42 direct persons for the OAPP contract or 19% of OAPP personnel. However, the revenue for the CHOISS program is 80% of OAPP revenue.

We understand that you will not accept an allocation method based on revenue. Accordingly, we will review the allocation methodologies recommended and

Alliance For Housing and Healing dba The Serra Project
825 Colorado Blvd · Suite 100 · Los Angeles, California 90041
Telephone 323-344-4888 · Fax 323-254-2956
www.serraproject.org

develop an allocation plan based on the recommended methodology. We will review this with OAPP after its completion.

Recommendation 3 and 4 – Ensure that only allowable and documented cost are included in the cost reports. Since $2,500 of the $6,648 identified is an accrual, and since the $2,400 for the replacement of a utilities meter are not being questioned for allow-ability or documentation, but because they were incurred in a different contract term, our answer is that we will ensure that only expenses incurred during the contract term are included in the cost report. Concerning the $381 for client activities similar to taking them to the zoo or beach, we need clarification on what is or is not permitted client activities. In the future, we will not include these costs in the cost report but will fund these expenses from other sources. We did provide canceled checks and other documentation for the lost documents. We have procedures in place to ensure documents are not misplaced or lost.

Recommendation 5 - Cost report and accounting records do not match by $1,233. We close our books on June 30, the end of the fiscal year. The OAPP contract is from March 1 to Feb 28. It is possible that we made adjustments after the cost report was prepared. In the future, we will keep a hard copy of the accounting information used for the cost report.

Very truly yours,

Raul Pavia

CC: Maria McGloin
Terry Goddard II
Susan McGinnis

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