



JOHN NAIMO  
AUDITOR-CONTROLLER

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

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October 7, 2015

TO: Supervisor Michael D. Antonovich, Mayor  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

FROM: John Naimo   
Auditor-Controller

**SUBJECT: HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES – A  
DEPARTMENT OF MENTAL HEALTH AND DEPARTMENT OF  
CHILDREN AND FAMILY SERVICES PROVIDER – CONTRACT  
COMPLIANCE REVIEW**

We completed a contract compliance review of Hathaway-Sycamores Child and Family Services (Hathaway-Sycamores or Agency), which included a sample of billings from Fiscal Years (FY) 2012-13 and 2013-14. The Department of Mental Health (DMH) contracts with Hathaway-Sycamores to provide mental health services, including interviewing Program clients, assessing their mental health needs, and implementing treatment plans. The Department of Children and Family Services (DCFS) contracts with Hathaway-Sycamores to provide Wraparound Approach Services, Residential Based Services, Group Home, Foster Family Agency, and Intensive Treatment Foster Care Services.

The purpose of our review was to determine whether Hathaway-Sycamores provided the services outlined in their County contracts, billed DMH for Program services provided, and appropriately spent DMH and DCFS Program funds. We also evaluated the adequacy of the Agency's financial records, internal controls, and compliance with their contracts and other applicable guidelines.

During FYs 2012-13 and 2013-14, DMH and DCFS paid Hathaway-Sycamores approximately \$48.3 million and \$48.9 million, respectively (see Attachment II). The Agency provides services in the First, Second, Third, and Fifth Supervisorial Districts.

## Results of Review

### DMH Program Review

Hathaway-Sycamores' treatment staff had the required qualifications to provide DMH Program services. However, Hathaway-Sycamores did not maintain documentation to support three (4%) of the 80 billings reviewed, totaling \$974, and did not document Informed Consent forms for seven (58%) of the 12 clients who received psychotropic medication.

*Hathaway-Sycamores' attached response indicates that they agree to repay DMH \$974, and that they will provide additional training to their treatment staff regarding Informed Consent, court authorization, and annual medication review.*

### DMH and DCFS Fiscal Review

Hathaway-Sycamores maintained adequate controls over their cash. However, the Agency allocated their indirect costs based on direct payroll costs, which included payroll expenditures charged at pre-determined rates, not actual hours worked. Specifically, Hathaway-Sycamores:

- Inappropriately allocated \$583,059 to the DMH and DCFS Programs for non-payroll shared/indirect expenditures based on pre-determined or incorrect rates from July 2012 through May 2014.

*Hathaway-Sycamores' attached response indicates that they do not agree to re-allocate their shared expenditures.*

- Charged \$24,290 to the DMH Program and \$5,177 to the DCFS Programs in FY 2013-14 for unallowable expenditures, including fundraising activities and prior year expenditures.

*Hathaway-Sycamores' attached response indicates that they reduced the DMH Program expenditures by \$24,290, agreed to repay DCFS \$2,694, and reduced the DCFS Program expenditures by \$2,483.*

- Inappropriately allocated \$30,729 to the DMH and DCFS Programs for shared payroll expenditures based on pre-determined rates in November 2013.

*Hathaway-Sycamores' attached response indicates that they do not agree to re-allocate their shared expenditures.*

- Charged DMH \$7,866 in November 2013 for 100% of a shared staff's payroll expenditures who worked on multiple Programs.

*Hathaway-Sycamores' attached response indicates that they do not agree to re-allocate their shared expenditures.*

Details of our review, along with recommendations for corrective action, are attached (Attachment I).

### **Review of Report**

We discussed our report with Hathaway-Sycamores, DMH, and DCFS. Hathaway-Sycamores' attached response (Attachment III) indicates that they agree to repay DMH \$974, DCFS \$2,694, and removed \$26,773 in unallowable expenditures. The response also indicates that, going forward, the Agency will allocate shared costs based on actual performance because their current allocation method does not meet their County contract requirements. However, the Agency disagrees with our recommendations to re-allocate their prior years indirect and shared costs based on allowable and equitable basis. DMH and DCFS management will work with Hathaway-Sycamores to ensure our recommendations are implemented.

We thank Hathaway-Sycamores management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:EB:sk

### **Attachments**

c: Sachi A. Hamai, Interim Chief Executive Officer  
Philip L. Browning, Director, Department of Children and Family Services  
Dr. Marvin J. Southard, D.S.W., Director, Department of Mental Health  
Michael R. Galper, Board Chair, Hathaway-Sycamores  
Debra K. Manners, Interim Chief Executive Officer, Hathaway-Sycamores  
Public Information Office  
Audit Committee

**HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES  
DEPARTMENTS OF MENTAL HEALTH  
AND CHILDREN AND FAMILY SERVICES PROGRAMS  
CONTRACT COMPLIANCE REVIEW  
FISCAL YEARS 2012-13 AND 2013-14**

**DMH BILLED SERVICES**

**Objective**

Determine whether Hathaway-Sycamores Child and Family Services (Hathaway-Sycamores or Agency) maintained documentation to support the services billed to the Department of Mental Health (DMH) in accordance with their DMH contract and related guidelines.

**Verification**

We selected 80 of the 26,707 approved Medi-Cal billings for September and October 2013, which were the most current billings available at the time of our review (June 2014). We reviewed the Assessments, Client Treatment Plans, Progress Notes, and Informed Consent forms in the clients' charts for the selected billings. The 80 billings represent services provided to 50 clients.

**Results**

Hathaway-Sycamores did not maintain documentation to support three (4%) of the 80 billings reviewed. The undocumented billings totaled \$974. Specifically, we noted:

- For two (3%) billings totaling \$465, the Progress Notes did not describe what the clients or service staff attempted and/or accomplished towards the Client Treatment Plan objectives, as required by the DMH Provider's Manual. According to the DMH Provider's Manual, Chapter 1, Page 1-9 and Chapter 2, Page 2-2, each chart note must include a description of service provided, what was attempted and/or accomplished during the contact toward the attainment of a treatment goal.
- For one (1%) billing totaling \$509, the Progress Note did not describe how the Targeted Case Management Service was directed towards the client's mental health as required by the DMH Provider's Manual. According to the DMH Provider's Manual, Chapter 1, Page 1-8, every service must be directed toward an included diagnosis, and the impairments that are a result of that diagnosis have interventions aimed at maintaining, reducing, or minimizing the effect of the diagnostic symptoms or impairment on a client's life. We noted a similar finding during our prior monitoring review.

Hathaway-Sycamores also did not maintain the Informed Consent forms or annual review of medication, as required by the DMH Provider's Manual, Chapter 2, Page 2-11,

for seven (58%) of the 12 clients reviewed who received psychotropic medication. In addition, Hathaway-Sycamores prescribed and administered psychotropic medication without obtaining court authorization for one (50%) of the two clients reviewed who were court dependents. According to the California Welfare and Institutions Code 365.5, only a court juvenile officer shall have authority to make orders regarding the administration of psychotropic medications for the child of the court.

### **Recommendations**

#### **Hathaway-Sycamores Child and Family Services management:**

- 1. Repay the Department of Mental Health \$974.**
- 2. Ensure that Progress Notes, Informed Consent, court authorization, and/or annual medication review are completed and documented as required.**

### **STAFFING QUALIFICATIONS**

#### **Objective**

Determine whether Hathaway-Sycamores' treatment staff had the required qualifications to provide the mental health services.

#### **Verification**

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 27 (6%) of the 467 treatment staff who provided services to DMH clients during September and October 2013.

#### **Results**

Each employee reviewed had the qualifications required to provide the billed services.

#### **Recommendation**

**None.**

### **CASH/REVENUE**

#### **Objective**

Determine whether Hathaway-Sycamores properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank account reconciliations were reviewed and approved by Agency management timely.

**Verification**

We interviewed Hathaway-Sycamores personnel, and reviewed their financial records and March 2014 bank reconciliations for four bank accounts.

**Results**

Hathaway-Sycamores properly recorded revenue in their financial records, deposited their DMH and Department of Children and Family Services (DCFS) cash receipts timely, and bank reconciliations were reviewed and approved by Agency management timely.

**Recommendation**

**None.**

**COST ALLOCATION PLAN/EXPENDITURES****Objective**

Determine whether Hathaway-Sycamores' Cost Allocation Plan (Plan) complied with their County contracts, and if expenditures charged to the DMH and DCFS Programs were allowable, properly documented, and accurately billed.

**Verification**

We reviewed the Agency's Plan and their financial records for 189 (48 DMH, 65 DCFS, and 76 shared/indirect) non-payroll expenditures, totaling \$1,329,138 (\$590,577 DMH, \$155,502 DCFS, and \$583,059 shared/indirect), charged to the DMH and DCFS Programs from July 2012 through May 2014. We also interviewed Agency personnel.

**Results**

Hathaway-Sycamores prepared their Plan in compliance with their County contracts. However, the Agency did not allocate their indirect costs to all benefited programs and allocated their indirect and shared costs based on direct payroll costs, which included payroll expenditures charged at pre-determined rates, not actual hours worked. The Office of Management and Budget Circular A-122 (OMB A-122) Attachment A, Section A.4 and the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) Section C.2.0 requires agencies to allocate shared and indirect costs equitably in accordance with the relative benefits received. As a result, Hathaway-Sycamores inappropriately allocated the \$583,059 in shared/indirect program expenditures reviewed.

Hathaway-Sycamores also inappropriately charged unallowable direct expenditures totaling \$29,467 (4%) of the \$746,079 (\$590,577 + \$155,502) reviewed. Specifically, Hathaway-Sycamores:

- Charged \$12,764 to the DMH Program and \$2,540 (\$883 Wraparound Approach Services, \$758 Residential Based Services (RBS), \$681 Group Home (GH), and \$218 Foster Family Agency (FFA)) to the DCFS Programs in Fiscal Year (FY) 2013-14 for fundraising activities, which are unallowable expenditures according to their County contracts. The OMB A-122 Attachment A, Section A.3, requires that expenditures be reasonable for the performance of the award and Attachment B, Section 25, states that fundraising activities are unallowable expenditures.
- Charged \$11,526 to the DMH Program and \$2,637 (\$1,600 Wraparound Approach Services, \$455 RBS, \$364 GH, and \$218 FFA) to the DCFS Programs in FY 2013-14 for prior year Program expenditures, which are unallowable expenditures according to their County contracts. The OMB A-122 Attachment A, Section A.3, requires that expenditures be reasonable for the performance of the award and Attachment B, Section 36, states that prior year expenditures are unallowable expenditures.

### Recommendations

#### **Hathaway-Sycamores Child and Family Services management:**

- 3. Re-allocate Fiscal Years 2012-13 and 2013-14 indirect and shared costs allocated to the County Programs based on allowable and equitable basis, reduce the Cost Reports by over allocated amounts, and repay the Department of Children and Family Services and Department of Mental Health any excess amounts received.**
- 4. Reduce the Fiscal Year 2013-14 Wraparound Approach Services Program expenditures by \$2,483 (\$883 + \$1,600), and repay the Department of Children and Family Services any excess amounts received.**
- 5. Repay the Department of Children and Family Services \$1,213 (\$758 + \$455) for unallowable costs charged to the Residential Based Services Program in Fiscal Year 2013-14.**
- 6. Repay the Department of Children and Family Services \$1,045 (\$681 + \$364) for unallowable costs charged to the Group Home Program in Fiscal Year 2013-14.**
- 7. Repay the Department of Children and Family Services \$436 (\$218 + \$218) for unallowable costs charged to the Foster Family Agency Program in Fiscal Year 2013-14.**

8. Reduce the Fiscal Year 2013-14 Department of Mental Health Cost Report by \$24,290 (\$12,764 + \$11,526), and repay the Department of Mental Health any excess amounts received.
9. Ensure that all expenditures charged are allowable and supported with adequate documentation.
10. Allocate shared expenditures to all benefiting programs based on an allowable and equitable method.

### FIXED ASSETS AND EQUIPMENT

#### Objective

Determine whether Hathaway-Sycamores' fixed assets and equipment purchased with DMH and DCFS funds were used for the appropriate Programs and adequately safeguarded.

#### Verification

We interviewed Hathaway-Sycamores personnel, and reviewed their fixed assets and equipment inventory list. We also performed a physical inventory of seven items purchased with DMH and DCFS funds to verify the items exist and were being used for the Programs.

#### Results

Hathaway-Sycamores adequately safeguarded and used the items reviewed for the DMH and DCFS Programs.

#### Recommendation

None.

### PAYROLL AND PERSONNEL

#### Objective

Determine whether Hathaway-Sycamores maintained personnel files as required and if payroll expenditures charged to the DMH and DCFS Programs were allowable, properly documented, and appropriately allocated as required by the OMB A-122, the A-C Handbook, and their County contracts.

#### Verification

We compared the payroll costs for 48 (11 direct, 24 shared, and 13 administrative)

employees, totaling \$248,982 (\$51,622 direct, \$92,836 shared, and \$104,524 administrative) for November 2013, to the Agency's payroll records and time reports. We also interviewed staff and reviewed personnel files for the 48 employees.

### **Results**

Hathaway-Sycamores maintained their personnel files as required. However, the Agency charged DMH \$22,274 and DCFS \$16,321 in questioned costs. Specifically, Hathaway-Sycamores:

- Allocated \$30,729 (\$14,408 to DMH and \$16,321 to DCFS) of the \$92,836 in shared expenditures reviewed based on pre-determined rates not based on actual conditions as required. The OMB A-122 Attachment A, Section D.3, requires that actual conditions should be taken into account when selecting the allocation basis.
- Charged DMH \$7,866 for 100% of a shared staff's payroll expenditures who worked on multiple Programs. The OMB A-122 Attachment A, Section A.4 and A-C Handbook Section C.2.0, requires agencies to allocate shared costs equitably in accordance with the relative benefits received.

### **Recommendations**

**Hathaway-Sycamores Child and Family Services management:**

- 11. Re-allocate Fiscal Years 2012-13 and 2013-14 shared staff's payroll expenditures and employee benefits to the Department of Mental Health and Department of Children and Family Services Programs based on actual equitable basis, reduce the Fiscal Years' Cost Reports and Program expenditures by any over allocated amounts, and repay any excess amounts received.**
- 12. Ensure employees record actual hours worked each day for each Program.**

### **COST REPORTS**

#### **Objective**

Determine whether Hathaway-Sycamores' FY 2012-13 DMH and DCFS (RBS, GH, and FFA) Cost Reports reconciled to their financial records.

#### **Verification**

We compared the Agency's FY 2012-13 DMH and DCFS Cost Reports to their financial records.

**Results**

Hathaway-Sycamores' FY 2012-13 DMH and DCFS Cost Reports reconciled to their financial records.

**Recommendation**

**None.**

**LISTING OF CONTRACTS REVIEWED  
HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES  
FISCAL YEARS 2012-13 AND 2013-14**

County Department	Program	District(s)	Payment Amounts		Contract Type
			2012-13	2013-14	
Children and Family Services	Wraparound Approach Services	Third and Fifth	\$ 3,784,890	\$ 3,962,739	Fee-for-Service
	Residential Based Services	Fifth	\$ 2,224,063	\$ 2,148,687	Fee-for-Service
	Group Home	Fifth	\$ 1,637,281	\$ 1,620,001	Fee-for-Service
	Foster Family Agency	Fifth	\$ 684,652	\$ 639,983	Fee-for-Service
	Intensive Treatment Foster Care Services	Fifth	\$ 317,630	\$ 254,480	Fee-for-Service
<b>DCFS Total</b>			<b>\$ 8,648,516</b>	<b>\$ 8,625,890</b>	
<b>Mental Health</b>		First, Second, Third, and Fifth	<b>\$ 39,659,835</b>	<b>\$ 40,311,115</b>	Cost-Reimbursement
<b>Total County Payments per Fiscal Year</b>			<b>\$ 48,308,351</b>	<b>\$ 48,937,005</b>	



August 20, 2015

John Naimo  
Los Angeles County Auditor-Controller  
500 West Temple Street, Room 525  
Kenneth Hahn Hall of Administration  
Los Angeles, California 90012

RE: Response to- HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES – A DEPARTMENT OF MENTAL HEALTH AND DEPARTMENT OF CHILDREN AND FAMILY SERVICES PROVIDER – CONTRACT COMPLIANCE REVIEW – PROGRAM YEARS 2012-13 AND 2013-14

Dear Mr. Naimo,

I am writing in response to the DEPARTMENT OF MENTAL HEALTH AND DEPARTMENT OF CHILDREN AND FAMILY SERVICES PROVIDER – CONTRACT COMPLIANCE REVIEW – PROGRAM YEARS 2012-13 AND 2013-14.

We thank you and your staff for the feedback we received during the auditing process.

Attached please find our response to the recommendations provided by the County.

If you have any questions or need additional information, please feel free to contact me at (626) 395-7100 extension 2501.

Sincerely,

A handwritten signature in blue ink that reads "Debra K. Manners".

Debra K. Manners  
Interim Chief Executive Officer

Contract Compliance Review  
Program Years 2012-13 & 2013-14

**DMH BILLED SERVICES**

**Recommendations**

**Hathaway-Sycamores Child and Family Services management:**

1. Repay the Department of Mental Health \$974.

**Hathaway-Sycamores Response**

- Hathaway-Sycamores agrees to repay and will get the necessary form signed
2. Ensure that Informed Consent, court authorization, and/or annual medication review is documented in the client's chart prior to treatment with psychotropic medication.

**Hathaway-Sycamores Response**

- At an upcoming all-hands meeting, Hathaway-Sycamores will conduct additional training regarding the documentation of informed consent, court authorization, and/or annual medication review.

**STAFFING QUALIFICATIONS**

**Recommendation**

None.

**Hathaway-Sycamores Response**

- None required

**CASH/REVENUE**

**Recommendation**

None.

**Hathaway-Sycamores Response**

- None required

**COST ALLOCATION PLAN AND EXPENDITURES**

**Recommendations**

3. Re-allocate Fiscal Years 2012-13 and 2103-14 shared costs allocated to the County Programs based on allowable and equitable basis, reduce the Cost Reports by over allocated amounts, and repay the Department of Children and Family Services and Department of Mental Health by excess amounts received.

**Hathaway-Sycamores Response**

- Hathaway-Sycamores has reviewed the allocation methodology for FY12-13 and FY13-14 and found no necessary changes needed to be made. As such, and since no changes are noted in the Cost Reports section below, we do not agree with the recommendation. Since the current allocation method is no longer meeting requirements, going forward, Hathaway-Sycamores will allocate staff's time based on actual contract duties performed by staff, such as billing time for DMH consumers.
4. Reduce the Fiscal Year 2013-14 Wraparound Approach Services Program expenditures by \$2,483, and repay the Department of Children and Family Services any excess amounts received.

**Hathaway-Sycamores Response**

- This relates to four payments identified in the audit
    - i. Pasadena Community Foundation, Typecraft, Party Earth Tickets and Centerbeam
  - All these items we re-classed out of the contract costs prior to the submission of the FY13-14 Cost Report, therefore, no action is required for the recommendation at this time.
5. Repay the Department of Children and Family Services \$1,213 for unallowable costs charged to the Residentially Based Services Program in Fiscal Year 2013-14.

**Hathaway-Sycamores Response**

- Hathaway-Sycamores agrees to repay
6. Repay the Department of Children and Family Services \$1,045 for unallowable costs charged to the Group Home Program in Fiscal Year 2013-14.

**Hathaway-Sycamores Response**

- Hathaway-Sycamores agrees to repay
7. Repay the Department of Children and Family Services \$436 for unallowable costs charged to the Foster Family Agency Program in Fiscal Year 2013-14.

**Hathaway-Sycamores Response**

- Hathaway-Sycamores agrees to repay
8. Reduce the Fiscal Year 2013-14 Department of Mental Health Cost Report by \$24,290, and repay the Department of Mental Health any excess amounts received.

**Hathaway-Sycamores Response**

- This relates to four payments identified in the audit
    - i. Pasadena Community Foundation, Typecraft, Party Earth Tickets and Centerbeam
  - All these items we re-classed out of the contract costs prior to the submission of the FY13-14 Cost Report, therefore, no action is required for the recommendation at this time.
9. Ensure that the County Program expenditures are allowable and supported with adequate documentation.

**Hathaway-Sycamores Response**

- At an upcoming department meeting, Hathaway-Sycamores will conduct additional training with Accounting staff regarding allowable County Program expenditures with appropriate support.
10. Ensure that shared costs allocated to the County Programs are allocated based on allowable and equitable basis and supported with adequate documentation.

**Hathaway-Sycamores Response**

- Current allocation method is no longer meeting requirements. Since the current allocation method is no longer meeting requirements, going forward, Hathaway-Sycamores will allocate staff's time based on actual contract duties performed by staff, such as billing time for DMH consumers.

**FIXED ASSETS AND EQUIPMENT**

**Recommendation**

None.

**Hathaway-Sycamores Response**

- None required

**PAYROLL AND PERSONNEL**

**Recommendations**

11. Re-allocate Fiscal Years 2012-13 and 2013-14 shared staff's payroll expenditures and employee benefits to the Department of Mental Health and Department of Children and Family Services Programs based on actual equitable basis, and reduce the Fiscal Years' Cost Reports and Program expenditures by any over allocated amounts, and repay any excess amounts received.

**Hathaway-Sycamores Response**

- Hathaway-Sycamores has reviewed the allocation methodology for FY12-13 and FY13-14 and found no necessary changes needed to be made. As such, and since no changes are noted in the Cost Reports section below, we do not agree with the recommendation. Since the current allocation method is no longer meeting requirements, going forward, Hathaway-Sycamores will allocate staff's time based on actual contract duties performed by staff, such as billing time for DMH consumers.

**12. Ensure that shared employees' payroll expenditures are supported with timecard or time study reporting actual hours worked each day by program.**

**Hathaway-Sycamores Response**

- Since the current allocation method is no longer meeting requirements, going forward, Hathaway-Sycamores will allocate staff's time based on actual contract duties performed by staff, such as billing time for DMH consumers.

**COST REPORTS**

**Recommendation**

None.

**Hathaway-Sycamores Response**

- None required