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

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JOHN NAIMO
AUDITOR-CONTROLLER

October 23, 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: **REVIEW OF THE ADMINISTRATION OF THE DEPARTMENT OF MENTAL HEALTH AND THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, LOS ANGELES AFFILIATION AGREEMENT**

In July 2010, the Department of Mental Health (DMH or Department) requested the Department of Auditor-Controller (A-C) to review the Department's Affiliation Agreement (Agreement) with the Regents of the University of California, Los Angeles (Regents) for Fiscal Years (FY) 2007-08 through 2010-11, which had a maximum contract amount of approximately $18 million. In accordance with the terms of the Agreement, DMH extended the Agreement through June 30, 2014, and increased the budget by $11.6 million, for a cumulative Agreement total of approximately $29.6 million. As discussed later, in the "Review of Report" section, issuance of this report was delayed, in part, due to legal and administrative processes that arose in conjunction with our review. In addition, DMH executed a new Board of Supervisors (Board)-approved Agreement, effective July 1, 2014, for FYs 2014-15 through 2018-19. This most recent Agreement addressed the major concerns noted in this report.

DMH requested our review after the Department's administrative investigation identified potential conflicts of interest between parties responsible for the administration of the Agreement. In addition, the Department requested the A-C to review the Agreement language and provide suggestions on ways to strengthen the Agreement. Under the Agreement, Regents were to provide academic and medical teaching services to DMH, and mental health services for DMH clients through Regents' Training, Intervention, Education, and Services for Adoption program. The Agreement allowed certain payments to be made to the Harbor-UCLA Medical Foundation, Incorporated (MFI), a

non-profit organization that performs medical billing services for the Harbor-UCLA Medical Center (Harbor-UCLA).

Our review included a particular focus on MFI's role in the Agreement because, as of February 2014, MFI received approximately $6.3 million of Agreement funds even though they were not a signator to the Agreement and did not have a contract with DMH or Regents. In addition, DMH Agreement managers, responsible for the day-to-day administration of the Agreement, expanded MFI's role to include functions/services not defined in the Agreement. For example, DMH Agreement managers used MFI to hire and pay consultants, and directed MFI to use funds received under the Agreement to make payments to parties with whom Agreement managers had potential conflicts of interest. One of the DMH Agreement managers (i.e., the DMH Agreement Administrator) was a high-ranking DMH employee in a position of trust, and able to make decisions on behalf of the Department.

We reviewed a sample of transactions/expenditures to determine if they were adequately supported and in compliance with the Agreement, County Code, County Fiscal Manual (CFM), and/or DMH's conflict of interest policy. In addition, we interviewed DMH, Regents, and MFI personnel; reviewed and provided suggestions on ways to strengthen language for future service agreements; and addressed the Department's concerns regarding the potential conflicts of interest and the overall administration of the Agreement.

## Summary of Findings

Our review disclosed serious violations of County procurement, contracting, and hiring policies/procedures; potential concealment and misuse of Agreement funds; a lack of effective oversight and monitoring; and potential conflicts of interest between DMH Agreement managers, contractors, and other parties involved with the Agreement. The following highlight some of the significant issues we noted during our review.

### Conflicts of Interest

We noted a number of significant potential conflicts of interest between DMH Agreement managers, contractors, and other parties involved with the Agreement. Many of the relationships and transactions we noted are prohibited or questionable per the Agreement, County Code, CFM, and/or DMH's conflict of interest policy. For example, the DMH Agreement Administrator signed, on behalf of the Department, approximately 40 consultant contracts totaling approximately $1.1 million. Of the $1.1 million in contracts, approximately $484,000 was paid out to parties who had potential conflicts of interest with the DMH Agreement managers. In addition, the contracts were not provided for review or approval to appropriate DMH Executive management, County Counsel, or the Board.

We also noted that Agreement funds were used to pay a salary of approximately $149,000 for a Harbor-UCLA psychiatry resident who is a relative of one of the DMH Agreement managers. DMH Executive management indicated they were not aware of this arrangement. The County filed a civil lawsuit against three individuals to seek reimbursement of questionable Agreement payments, and eventually settled with and received payments from all three individuals. The defendants did not admit to liability, including any conflicts of interest in their individual settlements.

*DMH's attached response indicates that the County received $317,000 from the three individuals as settlement from the civil lawsuit seeking reimbursement of questionable Agreement payments.*

## Harbor-UCLA Medical Foundation, Inc. (MFI)

### Fiscal and Contracting Issues

As previously noted, DMH did not have a contract with MFI. In addition, while the Agreement allowed for certain payments to be made to MFI, there was no documentation delineating the relationship between the parties, specifying MFI's responsibilities for payments received, referencing the services to be provided, or specifying the overhead fees that MFI would be paid (i.e., 8-9% of Agreement funds received).

Using MFI without a Board-approved contract enabled the DMH Agreement managers to potentially circumvent County procurement, contracting, and hiring policies/procedures, and to potentially conceal and misuse Agreement funds. In addition, DMH may have paid more for services using MFI because of MFI's overhead fees. As of February 2014, DMH paid MFI approximately $500,000 in overhead fees.

We also noted that under the prior Affiliation Agreement (FYs 2001-02 through 2006-07), MFI expended less than amounts advanced by DMH, resulting in an accumulation of approximately $1.7 million in "excess funds." These funds should have been returned to DMH at the end of the prior Agreement's term. However, it appears the DMH Agreement managers directed MFI to use excess funds to pay for services not stipulated or not adequately stipulated in the prior Agreement or the Agreement under review (Agreements). DMH Executive management indicated they were not aware of the excess funds because they believed the amounts advanced to MFI had already been spent. DMH should work with MFI to collect the unexpended balance, if any.

*DMH's attached response indicates that, subsequent to our review, DMH collected $333,816 in unexpended prior Agreement funds from MFI. In addition, DMH Executive management re-evaluated its relationship with MFI and determined that MFI's services were no longer needed. As a result, DMH discontinued its involvement with MFI. DMH*

*also indicated that they have provided and will continue to provide staff training on County contracting policies/procedures.*

**Subcontracting Issues**

As noted above, DMH Agreement managers used funds for services not defined within the Agreements. For example, DMH Agreement managers spent approximately $1.7 million on an "unofficial" DMH program (i.e., the Peer Employment, Education and Recovery Support (PEERS) Program, which helped previously incarcerated women reintegrate into society). In addition, the DMH Agreement Administrator hired and paid a consultant, who had potential conflicts of interest with the DMH Agreement managers, to develop the PEERS Program. DMH Agreement managers also inappropriately used County time and resources to administer the PEERS Program, and paid themselves approximately $31,000 in reimbursements for PEERS related expenditures (e.g., staff lunches, supplies, etc.). DMH Executive management indicated they were not aware the Department was paying for the PEERS Program and related expenditures.

DMH Agreement managers also paid the Los Angeles Biomedical Research Institute (LA BioMed), a non-profit organization that Harbor-UCLA uses for research projects, approximately $267,000 for equipment/supplies and salaries, bypassing County procurement policies/procedures. LA BioMed has no contractual relationship with MFI or DMH, and was not a party to the Agreement. A DMH Agreement manager also worked for LA BioMed on a part-time basis.

Supporting documentation was not always available to determine if services were provided, and the services and reliability of available documentation are questionable due to conflict of interest concerns.

*DMH's attached response indicates that they evaluated available documentation and determined that the services not stipulated or adequately stipulated in the Agreement met the intent of the Agreement. As a result, DMH's Executive management has indicated that the funds in question that were used to pay for these services should remain with MFI. DMH's response also indicates that they have implemented changes in the detail required to describe the services to be provided in Board-approved contracts, and the documentation that is to be maintained to verify that services were provided.*

Details of these and other findings and recommendations are included in Attachment I.

## Review of Report

We discussed our report with DMH management. The Department's attached response (Attachment II) indicates general agreement with our findings and recommendations.

Publication of this report was significantly delayed while we provided support to various legal and administrative processes. We also worked very closely with DMH Executive management throughout our review to ensure timely corrective action. As a result, and as noted in the Department's attached response, DMH management has already implemented our recommendations.

We thank DMH, Regents, and MFI management and staff for their cooperation and assistance during our review. If you have any questions, please contact me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS:TK

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Dr. Marvin J. Southard, D.S.W., Director, Department of Mental Health
Public Information Office
Audit Committee

# REVIEW OF THE ADMINISTRATION OF THE DEPARTMENT OF MENTAL HEALTH AND THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, LOS ANGELES AFFILIATION AGREEMENT

## Background

In July 2010, the Department of Mental Health (DMH or Department) requested the Department of Auditor-Controller (A-C) to review the Department's Affiliation Agreement (Agreement) with the Regents of the University of California, Los Angeles (Regents) for Fiscal Years (FY) 2007-08 through 2010-11. DMH requested our review after the Department's administrative investigation identified some potential conflicts of interest between parties responsible for the administration of the Agreement. In addition, the Department requested the A-C to review the Agreement language and provide suggestions on ways to strengthen the Agreement. Issuance of this report was delayed, in part, due to legal and administrative processes that arose in conjunction with our review.

Under the Agreement, Regents was to provide academic and medical teaching services to DMH, and mental health services for DMH clients through Regents' Training, Intervention, Education, and Services (TIES) for Adoption program. The Agreement was for approximately $18 million. In accordance with the terms of the Agreement, DMH extended the Agreement through June 30, 2014, and increased the budget by approximately $11.6 million, for a cumulative Agreement total of approximately $29.6 million. As of February 2014, DMH paid a total of $22 million under the Agreement, $15.7 million to Regents ($8.1 million for academic and medical teaching services and $7.6 million for the TIES for Adoption program), and $6.3 million to the Harbor-UCLA Medical Foundation, Incorporated (MFI), a non-profit organization that performs medical billing services for the Harbor-UCLA Medical Center (Harbor-UCLA). DMH executed a new Board of Supervisors (Board)-approved Agreement, effective July 1, 2014, for FYs 2014-15 through 2018-19. This most recent Agreement addressed the major concerns noted in this report.

The Agreement allowed certain payments to be made to MFI even though MFI was not a signator to the Agreement and did not have a contract with DMH or Regents. DMH Agreement managers, responsible for the day-to-day administration of the Agreement, expanded MFI's role to include functions/services not defined in the Agreement. For example, DMH Agreement managers used MFI to hire and pay consultants, and directed MFI to use funds received under the Agreement to pay for certain programs, services, and expenditures, many of which were not stipulated or not adequately stipulated in the Agreement. Many of the payments were to parties who had potential conflicts of interest with the DMH Agreement managers. It should be noted that one of the DMH Agreement managers (i.e., the DMH Agreement Administrator) was a high-ranking DMH employee in a position of trust, and able to make decisions on behalf of the Department.

## Scope of Review

We reviewed DMH's and Regents' compliance with the Agreement. Our review included a particular focus on MFI's role in the Agreement since there was no contract with MFI, and because MFI received a significant amount of Agreement funding ($6.3 million). In addition, DMH Agreement managers directed MFI to take actions that had the effect of circumventing County procurement, contracting, and hiring policies/procedures, and to potentially conceal and misuse Agreement funds. During our review, we became aware of a similar arrangement with MFI that preceded the timeframe of review requested by the Department. Findings relative to the prior arrangement with MFI are also addressed within this report.

We reviewed a sample of transactions/expenditures to determine if they were adequately supported and in compliance with the Agreement, County Code, County Fiscal Manual (CFM), and/or DMH's conflict of interest policy. In addition, we interviewed DMH, Regents, and MFI personnel; reviewed and provided suggestions on ways to strengthen language for future service agreements; and addressed the Department's concerns regarding the potential conflicts of interest and the overall administration of the Agreement.

# FINDINGS AND RECOMMENDATIONS

Our review disclosed serious violations of County procurement, contracting, and hiring policies/procedures; potential concealment and misuse of Agreement funds; a lack of effective oversight and monitoring; and potential conflicts of interest between DMH Agreement managers, contractors, and other parties involved with the Agreement. These violations, combined with ineffective Agreement language, contributed to the deficiencies noted throughout our review. In addition, these violations resulted in DMH paying for potentially unnecessary services and/or services that were not contemplated under the Agreement, and paying more for services because of overhead fees and lack of a competitive procurement process.

## Conflicts of Interest

As noted above, our review disclosed a number of significant potential conflicts of interest between DMH Agreement managers, contractors, and other parties involved with the Agreement. These conflicts may have contributed to the serious fiscal, contracting, and subcontracting violations noted throughout our review. Many of the relationships and transactions we noted are prohibited or questionable per the Agreement, County Code, CFM, and/or DMH's conflict of interest policy.

In February 2013, the County filed a civil lawsuit against three individuals (i.e., the DMH Agreement Administrator and two contractors) to seek reimbursement of questionable Agreement payments, and punitive damages for conflicts of interest and self-dealing involving the Agreement. The County settled and received payments from all three

individuals in February 2014. The defendants did not admit to liability, including any conflicts of interest in their individual settlements.

## Harbor-UCLA Medical Foundation, Inc. (MFI)

As noted above, the Agreement allowed certain payments to be made to MFI. DMH paid MFI approximately $100,000 in monthly automatic 1/12th payments of the annual Agreement budget. MFI maintained these funds in their accounts and, at the direction of DMH Agreement managers, distributed these funds on behalf of DMH as payments for services provided by consultants and other parties (e.g., Los Angeles Biomedical Research Institute (LA BioMed), as discussed below). In return, MFI retained 8-9% of the Agreement funds they received as payment for their services. We noted a number of issues with how MFI was used under the Agreement, as follows:

### Fiscal and Contracting Issues

- **DMH did not have a contract with MFI.** Despite the lack of a contract between DMH and MFI, the Agreement allowed certain payments to be made to MFI, and MFI provided services (e.g., hiring contractors and employees), at the direction of DMH Agreement managers, for DMH. However, there was no documentation delineating the relationship between the parties, specifying MFI's responsibilities regarding the payments received, referencing the services to be provided by MFI, or specifying the overhead fees that MFI would be paid. According to the DMH Agreement Administrator and MFI management, the arrangement was "verbal."

  Using MFI without a Board-approved contract enabled the DMH Agreement managers to potentially circumvent County procurement, contracting, and hiring policies/procedures, and to potentially conceal and misuse Agreement funds. In addition, DMH may have paid more for services using MFI because of MFI's overhead fees. As of February 2014, DMH paid MFI approximately $500,000 in overhead fees (i.e., 8-9% of the $6.3 million).

- **MFI commingled Agreement, prior Agreement, and other program funds.** According to MFI, a DMH Agreement manager directed MFI to account for Agreement funds in an existing MFI account. Upon review, we noted this account included unspent prior Agreement (FYs 2001-02 through 2006-07) funds received from DMH, and other program funds. Because the funds were commingled, we were unable to determine in some cases the funding source used to pay for services, or differentiate the amount of each funding source remaining in the account. The Department needs to determine which funding sources were used to pay for services through the commingled account, and take appropriate action to address overpayments, amounts owed, and payments inconsistent with funding restrictions. DMH should also work with MFI to collect unexpended balances, if any, in the commingled account.

- **MFI accumulated approximately $1.7 million in prior Agreement funds.** Under the prior Agreement, MFI expended less than amounts advanced by DMH, resulting in an accumulation of approximately $1.7 million in "excess funds." In 2009, a DMH Agreement manager instructed MFI to transfer the $1.7 million in "excess funds" from the primary (commingled) account discussed above, to a separate MFI account (i.e., the excess funds account). DMH Executive management indicated they were not aware of the excess funds because they believed the amounts advanced had already been spent. These funds should have been returned to DMH at the end of the prior Agreement's term. It appears the funds were spent on services not stipulated or not adequately stipulated in the prior Agreement or the Agreement under review. DMH should work with MFI to collect the unexpended balance, if any, in the excess funds account.

Subsequent to our review, DMH Executive management re-evaluated its relationship with MFI and determined that MFI's services were no longer needed. As a result, DMH discontinued its involvement with MFI. DMH management should determine which funding sources were used to pay for services through the commingled account, and take appropriate action to address overpayments, amounts owed, and payments inconsistent with funding restrictions. In addition, DMH management should work with MFI to collect unexpended balances, if any, in the commingled and excess funds accounts.

**Recommendations**

**Department of Mental Health management:**

1. **Determine which funding sources were used to pay for services through the commingled account, and take appropriate action to address overpayments, amounts owed, and payments inconsistent with funding restrictions.**

2. **Work with the Harbor-UCLA Medical Foundation, Incorporated to collect unexpended balances, if any, in the commingled and excess fund accounts.**

**Subcontracting**

- **DMH Agreement managers used MFI to provide and pay for services not stipulated or not adequately stipulated in the Agreement, and not consistent with the purpose/intent of the Agreement.** DMH Agreement managers also did not follow appropriate County procurement and contracting policies/procedures when obtaining these services. The Regents' Agreement Administrator and DMH Executive management indicated they were not aware of these arrangements. Supporting documentation (e.g., copies of deliverables, etc.) was also not always available to determine if services were provided, and the alleged conflicts of interest raised concerns about the reliability of available documentation. In addition, DMH

Agreement managers used the $1.7 million from the "excess funds" and the commingled accounts to pay for these services, including payments to parties with whom they had potential conflicts of interest. Subsequent to our review, DMH Executive management terminated/discontinued the following services that were not stipulated or not adequately stipulated in the Agreement:

- **Peer Employment, Education and Recovery Support (PEERS) Program -** DMH Agreement managers spent approximately $1.7 million of commingled and excess funds on the PEERS Program, which was intended to help previously incarcerated women reintegrate into society. At the direction of DMH Agreement managers, MFI hired and paid PEERS Program participants to provide clerical services at County and non-County facilities which raised serious security and liability concerns. In addition, the DMH Agreement Administrator hired and paid a consultant, who had potential conflicts of interest with the DMH Agreement managers, to develop the PEERS Program. DMH Agreement managers also inappropriately used County time and resources to administer the PEERS Program, which was not an "official" DMH program, and paid themselves approximately $31,000 in reimbursements for PEERS related expenditures (e.g., staff lunches, supplies, etc.). DMH Executive management indicated they were not aware the Department was paying for the PEERS Program and related expenditures.

- **Consultants -** The DMH Agreement Administrator signed, on behalf of the Department, approximately 40 consultant contracts totaling approximately $1.1 million. Of the $1.1 million in contracts, approximately $484,000 was paid out to parties who had potential conflicts of interest with the DMH Agreement managers. According to the DMH Agreement Administrator, consultants and participants were hired and paid through MFI to circumvent the County's procurement, contracting, and hiring policies/procedures. Most of the agreements were vague, frequently lacked a description of the required services/deliverables, did not include required County contract language (e.g., compliance with civil rights laws, fair labor standards, etc.), and were not provided for review or approval to appropriate DMH Executive management, County Counsel, or the Board. It was also uncertain/unclear if services were actually rendered, or if services were related in any way to the Agreement. For example, at the direction of DMH Agreement managers, MFI paid $13,400 for the salary of an individual because it was taking the County too long to clear the individual through the hiring process, and the individual was already providing services for DMH.

- **Regents Center for the Study of Mental Health (Center) -** As approved by the DMH Agreement Administrator, MFI advanced Regents $600,000 for the development and operation of the Center to address concerns regarding underserved populations and mental health service delivery approaches. Regents provided an accounting to support the use of approximately $350,000 of the funds, which were spent on research projects. However, it was unclear at

times what services and deliverables were to be provided for DMH by the Center. As a result, we were unable to determine if the services provided satisfied the Center's purpose/intent. In addition, based on documentation provided, it does not appear that the services provided justify the amounts paid. For example, the Center hired and paid a consultant $100,000 to evaluate and report on Regents' Forensic Psychiatry Fellowship and create a new fellowship program. However, the Center only received a four page draft report that was never finalized. DMH should ensure Regents returns unexpended funds (approximately $250,000) to the Department.

- **LA BioMed -** At the direction of DMH Agreement managers, MFI used LA BioMed, a non-profit organization that Harbor-UCLA uses for research projects, to purchase equipment/supplies and pay salaries, totaling approximately $267,000, thus bypassing County competitive and agreement vendor procurement policies/procedures. LA BioMed has no contractual relationship with MFI or DMH, and was not a party to the Agreement. However, a DMH Agreement manager worked for LA BioMed on a part-time basis, and LA BioMed paid a salary of approximately $149,000 for a Harbor-UCLA psychiatry resident who is a relative of the same DMH Agreement manager. The residency was not stipulated in the Agreement, and DMH Executive management indicated they were not aware of this arrangement. In addition, LA BioMed paid approximately $34,000 for 32 computers/printers, a few of which appear to have been purchased for DMH Agreement managers. DMH may have paid more for equipment/supplies and salaries by using LA BioMed because LA BioMed charged a 10% processing fee (approximately $26,650) for these transactions, which is in addition to MFI's 8-9% overhead fees that DMH had already paid.

Because services described above were not stipulated or not adequately stipulated in the Agreement, and supporting documentation and the parties involved were not always available, we were unable to determine if the services were provided, allowed, and/or justified for the amounts paid. In addition, services and the reliability of available documentation are questionable due to the conflict of interest concerns. Based on the Department's experience with and knowledge of the types of services allowed under the Agreement, DMH management should determine if the Department can recoup funds used to pay for any of these services. In addition, DMH management should ensure the unexpended funds (i.e., the $250,000 paid to Regents Center) are returned. DMH management should also ensure staff comply with County procurement and contracting policies/procedures, and that all future services are adequately stipulated in a Board-approved contract.

## Recommendations

**Department of Mental Health management:**

3. **Determine if the Department can recoup funds used to pay for services not stipulated or not adequately stipulated in the Department of Mental**

**Health and Regents of the University of California, Los Angeles Affiliation Agreement.**

4. **Ensure the Regents of the University of California, Los Angeles returns the unexpended funds of approximately $250,000, paid to the Regents of the University of California, Los Angeles Center for the Study of Mental Health.**

5. **Ensure staff comply with County procurement and contracting policies/procedures.**

6. **Ensure all future services are adequately stipulated in a Board-approved contract.**

## Agreement Language

As noted above, DMH requested the A-C to review the Agreement and provide suggestions to strengthen the Agreement. Based on our review, we noted the following examples of Agreement practices that highlight opportunities to strengthen any future service agreement:

- **The Agreement does not specify the documentation required to support services rendered.** DMH was to reimburse MFI monthly in arrears 1/12th of the annual Agreement budget for services rendered. However, the Agreement does not specify the documentation to be maintained to support services rendered. As a result, we were unable to determine whether the services rendered were in compliance with the Agreement. DMH needs to ensure any service agreement specifies documentation required to support services rendered.

- **The Agreement allowed for services rendered to be automatically approved without being reviewed by management.** The Agreement allows for services rendered to be automatically deemed certified (i.e., approved) if they are not reviewed and certified by the appropriate manager within 30 days of receipt. DMH should not allow automatic certification of services rendered.

- **DMH has limited ability to object to Regents' use of a former DMH employee under the Agreement.** Under the Agreement, DMH has 30 days to object to Regents using a former DMH employee, who was employed with the County within the previous 12 months and disciplined when employment was terminated. This practice restricts whom DMH can object to, does not ensure DMH's review, and allows for automatic approval after the 30 days. DMH needs to ensure any service agreement includes provisions for DMH's pre-approval for use of any former DMH employee to provide services under any agreement with the Department.

We also noted that the TIES for Adoption program should not have been included in the Agreement. The purpose/intent of the Agreement was to provide education and training

(i.e., academic and medical teaching services) to DMH staff. However, the TIES for Adoption program provides mental health services to DMH clients, which is not consistent with that purpose/intent. Subsequent to our review, DMH entered into a separate Legal Entity Agreement with Regents to continue the TIES for Adoption program.

## Recommendations

**Department of Mental Health management ensure any future service agreement:**

7. **Specifies documentation required to support services rendered, and does not allow automatic certification of services rendered.**

8. **Includes provisions for the Department of Mental Health's pre-approval for use of any former Department of Mental Health employee to provide services under any agreement with the Department.**

LOS ANGELES COUNTY DEPARTMENT OF MENTAL HEALTH
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MARVIN J. SOUTHARD, D.S.W.
Director
ROBIN KAY, Ph.D.
Chief Deputy Director
RODERICK SHANER, M.D.
Medical Director

October 6, 2015

TO: John Naimo
Auditor-Controller

Robin Kay for

FROM: Marvin J. Southard, D.S.W.
Director

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S REVIEW OF THE ADMINISTRATION OF THE DEPARTMENT OF MENTAL HEALTH AND THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, LOS ANGELES, AFFILIATION AGREEMENT**

This memorandum provides the Department of Mental Health's (DMH) response to the review conducted by your staff of DMH's administration of the prior Affiliation Agreement with the University of California, Los Angeles (UCLA). As noted in your report in July 2010, DMH requested that your office review our Affiliation Agreement with UCLA due to issues DMH identified regarding administration of the Affiliation Agreement. The scope and complexity of the required review led DMH to the conclusion that it was best conducted by Auditor-Controller (A-C) staff. I would like to take this opportunity to thank you and your staff for your assistance in completing this complicated review. As outlined in this response, the close collaboration between our staff over the course of the last five years enabled DMH to take immediate corrective action as issues were identified. The specific actions undertaken are outlined in this response.

**REPORT RECOMMENDATIONS AND DMH RESPONSES**

Harbor-UCLA Medical Foundation Incorporated (MFI) Section

Department of Mental Health management:

1. Determine which funding sources were used to pay for the services through the commingled account and take appropriate action to address overpayments, amounts owed, and payments inconsistent with funding restrictions.

DMH's Response: DMH concurs with the recommendation. During the course of review, DMH staff met with the A-C team on a number of occasions to discuss the documentation of services, costs, and funding sources that could be identified. As indicated in the audit report, some programs, services and/or expenditures were not adequately stipulated in the contract. In many cases, supporting documentation was no longer available due to staff turn-over or poor recordkeeping. During DMH's discussions with the A-C and Harbor-UCLA Medical Center staff, it was determined by DMH, based upon the documentation that was available, that the funds in question were used to provide mental health services and/or programs that met the intent of the

Affiliation Agreement language. Therefore, these funds should appropriately remain with the Harbor-UCLA Medical Foundation or the Regents.

2. Work with the Harbor-UCLA Medical Foundation, Inc., to collect unexpended balances, if any, in the commingled and excess fund account.

DMH's Response: DMH agrees with the recommendation and has completed the corrective actions identified. On October 8, 2014, DMH received from the Harbor-UCLA Medical Foundation, Inc., $333,816 in unexpended funds, which represents the full amount identified for return to DMH. In addition, DMH has concluded its relationship with the Harbor-UCLA Medical Foundation, Inc.

Subcontracting Section

Department of Mental Health management:

3. Determine if DMH can recoup funds used to pay for services not stipulated or not adequately stipulated in DMH and Regents of the UCLA Affiliation Agreement.

DMH's Response: DMH concurs with the recommendation. As indicated in the A-C's report in February 2013, the County filed a civil lawsuit against three individuals to seek reimbursement of questionable agreement payments. The County settled and received payment in the amount $317,000 from all three defendants. As indicated in the DMH response to Recommendation 1, based upon the documentation identified by the A-C during the review, it was determined that the services not stipulated or adequately stipulated in the Affiliation Agreement were mental health services and/or programs that met the intent of the Affiliation Agreement language.

4. Ensure the Regents of UCLA return the unexpended funds of approximately $250,000, paid for the UCLA Center for the Study of Mental Health.

DMH's Response: DMH concurs with the recommendation. On February 19, 2015, DMH received reimbursement of unexpended funds in the amount of $250,000 from the Regents of UCLA.

5. Ensure staff complies with County procurement and contracting policies/procedures.

DMH's Response: DMH concurs with the recommendation and has implemented steps to ensure compliance with County procurement and contracting policies/procedures. Staff involved with procurement and contracting activities have received and continue to be trained on procurement and contracting policies and procedures.

6. Ensure all future services are adequately stipulated in a Board-approved contract.

DMH's Response: DMH concurs with the recommendation and has implemented sweeping changes in the detail required to describe the services to be provided in Board-approved contracts.

The statement of work language in each contract is reviewed by program, contract, and fiscal staff to ensure that sufficient detail is provided to delineate the specific services to be provided and the documentation that is to be maintained to verify the service was provided.

Agreement Language Section

DMH management ensures any future service agreement:

7. Specifies documentation required to support the services rendered and do not allow automatic certification of services rendered.

DMH's Response: DMH concurs with the recommendation and has implemented language in contracts to identify the documentation required to support services rendered; automatic certification of services rendered is not permitted. Staff has been advised of their responsibility to verify that services have been provided and documented in accordance with the contract specifications. As an additional check and balance, Accounting Division staff reviews the contract Statement of Work to verify that the services being invoiced are authorized in the contract prior to issuing payment.

8. Includes provisions for DMH's pre-approval for the use of any former DMH employee to provide services under any agreement with the Department.

DMH's Response: DMH concurs with the recommendation and has amended contract language to require pre-approval by DMH prior to the use of any former DMH employee to provide services under any agreement with the Department.

Thank you again for your assistance in identifying these issues and working with DMH management to identify and implement corrective actions. Should you have any questions regarding this response, please feel free to contact me at (213) 738-4601, or your staff may contact Margo Morales, Administrative Deputy, at (213) 738-2891.

MJS:MM:ag

c: Robin Kay, Ph.D.
Margo Morales