COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

June 1, 2006

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

FROM: J. Tyler McCauley FOR
Auditor-Controller

SUBJECT: **OLIVE CREST TREATMENT CENTERS, INC. CONTRACT REVIEW – WRAPAROUND APPROACH SERVICES PROGRAM**

We have conducted a fiscal review of Olive Crest Treatment Centers, Inc. (Olive Crest or Agency), a Wraparound Approach Services (Wraparound) Program service provider. The review was conducted by the Auditor-Controller's Countywide Contract Monitoring Division.

Background

The Department of Children and Family Services (DCFS) contracts with Olive Crest, a private, non-profit, community-based organization, to provide and operate the Wraparound program. The Wraparound program is a family-centered and needs-driven program that provides individualized services to children and their families such as, therapy, housing, educational, and social assistance. The target population for the Wraparound program includes children who are at risk of being placed in a Rate Classification Level of 12 to 14 group home, Metropolitan State hospital, etc. Olive Crest's office is located in the Fourth District.

DCFS pays Olive Crest on a fee-for-service basis. Olive Crest receives $5,994 for non-federally eligible children and $2,997 for federally eligible children. DCFS paid Olive Crest approximately $1,026,000 for Fiscal Year (FY) 2004-2005 and $778,000 for the first six months of FY 2005-2006.

Purpose/Methodology

The purpose of the review was to determine whether Olive Crest complied with its contract terms and appropriately accounted for and spent Wraparound funds in providing services to children and their families. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State, and County guidelines.

Results of Review

Olive Crest appropriately billed DCFS for the services provided to the clients. In addition, the personnel files for the staff assigned to the Wraparound program contained the required information.

Olive Crest needs to improve its controls over petty cash disbursements. Olive Crest did not maintain documentation to support $2,674 in petty cash disbursements made to staff. The County contract requires that petty cash disbursements must be supported by invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase.

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

Review of Report

On May 11, 2006, we discussed our report with Olive Crest management who agreed with the findings. In their attached response, Olive Crest management indicates the actions the Agency has taken to implement the recommendations. We also notified DCFS of the results of our review.

We thank Olive Crest for their cooperation and assistance during this review. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: David E. Janssen, Chief Administrative Officer
David Sanders, Ph.D., Director, Department of Children and Family Services
Donald A. Verleur II, CEO, Olive Crest Treatment Centers, Inc.
Public Information Office
Audit Committee

WRAPAROUND APPROACH SERVICES
OLIVE CREST TREATMENT CENTERS, INC.
FISCAL YEAR 2005-06

CASH/REVENUE

Objective

Determine whether cash receipts and revenues are properly recorded in Olive Crest Treatment Centers' (Olive Crest or Agency) records and deposited timely in the Agency's bank account. In addition, determine whether the Agency maintained adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the bank reconciliations.

Results

Olive Crest properly recorded and deposited cash receipts in a timely manner. As of December 2005, 11 (85%) of 13 checks on the Agency's bank reconciliation totaling $1,806 were outstanding for an average of 21 months. In addition, the bank reconciliation did not contain the preparer's name. According to the County contract, reconciling items should be resolved timely and unclaimed or undelivered checks should be cancelled periodically. Subsequent to our review, Olive Crest voided the 11 outstanding checks and adjusted the financial records.

Recommendations

Olive Crest management:

1. **Ensure bank reconciliations include the preparer name.**

2. **Resolve reconciling items in a timely manner.**

EXPENDITURES/PROCUREMENT

Objective

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

Verification

We interviewed Agency personnel, reviewed financial records, and reviewed documentation for 18 non-payroll expenditure transactions billed by the Agency from July to December 2005, totaling $42,729.

Results

Olive Crest's program expenditures were allowable, properly documented and accurately billed to the Wraparound program as required.

Recommendation

There are no recommendations in this section.

INTERNAL CONTROLS

Objective

To determine whether the Agency maintained sufficient internal controls over its business operations.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, and tested transactions in various areas such as cash, expenditures, payroll and personnel.

Results

Olive Crest needs to improve its controls over petty cash disbursements. Olive Crest did not maintain documentation to support $2,674 in petty cash disbursements made to staff. The County contract requires that petty cash disbursements must be supported by invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase.

Recommendations

Olive Crest management:

3. **Establish sufficient control over petty cash and obtain receipts or reimbursement from staff for unsupported petty cash disbursements.**

4. **Return $2,674 in unsupported petty cash disbursements.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether the Agency's fixed assets and equipment purchases made with Wraparound funds are used for the Wraparound program and that the assets are safeguarded and accurately accounted for.

Results

We did not perform testwork in this area. The Agency did not purchase any fixed assets with Wraparound funds.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll is appropriately charged to the Wraparound program. In addition, determine whether personnel files are maintained as required.

Verification

We reviewed expenditures totaling $6,110. We also reviewed the personnel files of staff assigned to the Wraparound program.

Results

Olive Crest's salaries were properly supported and appropriately charged to the Wraparound program. The Agency also maintained personnel files as required by the County contract.

Recommendation

There are no recommendations in this section.

COST ALLOCATION PLAN

Objective

Determine whether the Olive Crest's Cost Allocation Plan was prepared in compliance with the County contract and applied to program costs.

Verification

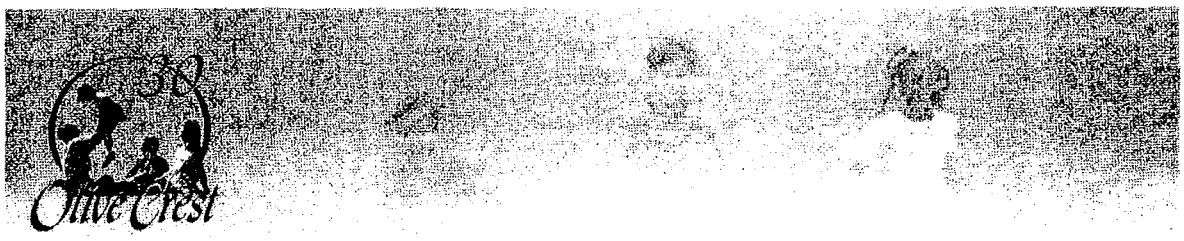
We reviewed the Agency's Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency in October 2005.

Results

Olive Crest's Cost Allocation Plan complied with the County contract requirements. However, Olive Crest over allocated its mortgage interest and depreciation expenses by $7,736 for 2005. Olive Crest included their entire mortgage interest and depreciation expenses to the indirect cost pool instead of the amount applicable to corporate office. Office of Management and Budget Circular A-122 states that interest and depreciation expenses should be allocated to the individual functions performed in each building on the basis of usable square feet of space. Subsequent to our review, Olive Crest reallocated the $7,736 to appropriate programs.

Recommendation

5. **Olive Crest management ensure expenditures for multiple programs are allocated appropriately.**



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County of Los Angeles
Department of Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, CA 90012-2766

May 19, 2006

Reference: Your Contract Review – Wraparound Approach Services Program

Dear Sir or Madam:

We have the following comments concerning your recommendations:

1. We are reviewing all bank reconciliations to insure that the preparer's name is present.

2. Unclaimed or undelivered checks are being reviewed at least quarterly and any checks that are more than six months old are cancelled.

3. We have distributed to all petty cash holders our policy concerning adequate documentation (see attached).

4. We will return $2,674 in petty cash disbursements upon finalization of this review.

5. We have reviewed our allocation procedures and implemented the changes mentioned by the auditor.

Sincerely,

Donald Verleur II
CEO

Adequate Support

Inadequately Supported Costs – Expenditures lacking original vouchers, invoices, receipts, or other documentation which clearly establish the nature of the expenditure and its relevance to the program.

Examples:

1. **Payroll** - Salaries for employees working for two or more agency programs who:
   a. Did not account for time worked in each program separately on their timecard.
   b. Did not obtain appropriate signatures on the timecard.
2. **Consultant Services**:
   a. Payments to independent contractors without invoices identifying work performed, hours worked and rate charged.
   b. Payments without a signed agreement or the signed agreement is incomplete (e.g., compensation basis, term of agreement not specified).
3. **Travel**: Travel expenses (food, lodging, transportation) with no agendas or other documentation to indicate the nature and purpose of the trips, who meals were for, etc.
4. **Vehicle Expenditures**: Vehicle related expenditures such as gasoline, repairs, and registration without an appropriate mileage log. The vehicle mileage log must show dates, destination and headquarters, purpose of the trip, beginning and ending odometer readings and the resulting mileage.
5. **Operating Expenses**: Office supplies, equipment rentals, etc. without documentation to indicate the nature and purpose of the expense.
6. **Outside Meals**: Meal receipts and/or invoices without a record of the nature and purpose of each meal, and identification of the participants.
7. **Credit Cards**: Any credit card purchase not supported by the original receipt. 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. Credit card statements alone are not sufficient support for credit card purchases.

Unallowable Costs

Some Examples from OMB Circular A-122

1. **Advertising and public relations costs**

   (a) Costs of meetings or other events related to fund raising or other organizational activities including:

   (1) Costs of displays, demonstrations, and exhibits;

   (2) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and

   (3) Salaries and wages of employees or cost of services engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;

   (b) Costs of promotional items and memorabilia, including models, gifts, and souvenirs;

   (c) Costs of advertising and public relations designed solely to promote the organization.

2. **Alcoholic beverages**. Costs of alcoholic beverages are unallowable
3. **Bad debts**. Bad debts, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable.
4. **Contingency provisions**. Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable.
5. **Contributions**. Contributions and donations by the organization to others are unallowable.
6. **Fines and penalties**. Costs of fines and penalties resulting from violations of, or failure of the organization to comply with Federal, State, and local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of an award or instructions in writing from the awarding agency.
7. **Goods or services for personal use**. Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.
8. **Costs of organized fundraising**. Including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable. Fundraising and investment activities shall be allocated an appropriate share of indirect costs
9. **Costs of investment counsel** and staff and similar expenses incurred solely to enhance income from investments are unallowable.