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DEPARTMENT OF AUDITOR-CONTROLLER

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August 24, 2007

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **OLIVE CREST TREATMENT CENTERS, INC. CONTRACT REVIEW – A DEPARTMENT OF CHILDREN AND FAMILY SERVICES WRAPAROUND APPROACH SERVICES PROGRAM PROVIDER**

We have conducted a fiscal review of Olive Crest Treatment Centers, Inc. (Olive Crest or Agency), a Department of Children and Family Services Wraparound Approach Services (Wraparound) Program provider.

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 providing 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 currently or at risk of being placed in a Rate Classification Level of 12 to 14 group home, Metropolitan State hospital, etc. Olive Crest is located in the Fourth District.

DCFS paid Olive Crest on a fee-for-service basis with $4,184 per child, per month. DCFS paid Olive Crest approximately $1.3 million for Fiscal Year (FY) 2006-07.

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

Overall, Olive Crest provided the services in accordance with the County contract. Olive Crest's payroll expenditures were also properly supported and appropriately charged to the Wraparound program. However, Olive Crest did not reserve approximately $358,000 in unspent Wraparound revenues for FY 2005-06 to ensure that the funds would be spent to provide additional program services in the future.

Olive Crest also inappropriately included mortgage interest and depreciation of the Agency's buildings as indirect costs. As a result, Olive Crest over charged the Wraparound program $1,267 in January 2007. In addition, Olive Crest allocated more than the actual indirect cost incurred and reported in the financial records. Olive Crest management stated that the Agency will make an adjustment at year-end to reflect their actual expenditures.

The details of our review along with recommendations for corrective action are attached.

Review of Report

We discussed our report with Olive Crest on July 24, 2007. In their attached response, Olive Crest management concurred with our findings and 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: William T Fujioka, Chief Executive Officer
Patricia S. Ploehn, Director, Dept. of Children and Family Services
Susan Kerr, Chief Deputy Director, Dept. 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 2006-07

UNSPENT REVENUE

Olive Crest Treatment Centers, Inc. (Olive Crest or Agency) received $4,184 per month for each eligible child. The Agency's Fiscal Year (FY) 2005-06 contract indicated that in instances in which the Agency does not expense the entire monthly amount in providing services to a child, the Agency is permitted to use the excess revenue to fund services to a child that requires services in excess of the monthly rate. Olive Crest is also permitted to carryover unspent Wraparound funding from one program year to another to provide additional Wraparound program services in subsequent years.

At the end of FY 2005-06, Olive Crest reported $358,451 in unspent Wraparound funds. However, the Agency did not place the unspent funds in a reserve account to ensure that the monies are used specifically for future Wraparound expenditures.

Recommendation

1. **Olive Crest management reserve the unspent funds to ensure that the funds are used to provide Wraparound program services in subsequent years.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenues are properly recorded in Olive Crest's financial 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 for Olive Crest's three bank accounts, each covering a month between December 2006 and January 2007.

Results

Olive Crest properly recorded and deposited cash receipts in a timely manner. However, as of March 2007, Olive Crest had not reconciled its operating bank account for January 2007. In addition, 54 (12%) of 455 outstanding checks totaling $18,123 and

three reconciling items totaling $6,673 were over 90 days old. The prior year's report also noted that reconciling items were not resolved timely.

Recommendations

Olive Crest management:

2. **Prepare the bank reconciliation within 30 days of the bank statement date.**

3. **Ensure that reconciling items are resolved timely and unclaimed checks are cancelled 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 30 non-personnel expenditure transactions billed by the Agency from January 2006 through January 2007, totaling $71,461.

Results

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

Recommendation

There are no recommendations for this section.

INTERNAL CONTROLS

Objective

Determine whether the contractor maintained sufficient internal controls over its business operations.

Verification

We interviewed Agency personnel, reviewed the Agency's policies and procedures manuals and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

Results

Generally, Olive Crest maintained sufficient internal controls over its business operations. However, Olive Crest issued one check over $5,000 without two signatures and misclassified two expenditures, totaling $5,513, in the Agency's general ledger.

Recommendations

Olive Crest management:

4. **Ensure that two signatures are obtained for expenditures over $5,000.**

5. **Ensure that expenditures are classified correctly in the Agency's accounting records.**

FIXED ASSETS

Objective

Determine whether Olive Crest's fixed assets purchased with Wraparound funds are used for the Wraparound program and that the assets are adequately safeguarded.

We did not perform test work in this section as Olive Crest did not use Wraparound funding to purchase fixed assets.

PAYROLL AND PERSONNEL

Objective

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

Verification

We reviewed the payroll expenditures for eight employees, totaling $9,186, for February 2007. We also reviewed the personnel files for the eight staff assigned to the Wraparound program.

Results

Olive Crest's payroll expenditures were properly supported and appropriately charged to the Wraparound program. However, the timecard for one (13%) of the eight employees was not signed by a supervisor and the personnel files for two (25%) of the eight employees did not contain job descriptions or documents to support the employees' qualifications as required by the County contract.

Recommendations

Olive Crest management:

6. **Ensure that employees' timecards are reviewed and signed by their supervisors.**

7. **Ensure that the required documents are maintained in the personnel files.**

COST ALLOCATION PLAN

Objective

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

Verification

We reviewed Olive Crest's Cost Allocation Plan and selected sample expenditures incurred by the Agency in January 2007 to ensure that the expenditures were appropriately allocated to the Agency's programs.

Results

Olive Crest over allocated its mortgage interest and depreciation expenses by $1,267 in January 2007. Olive Crest inappropriately included the mortgage interest and depreciation of Agency's buildings as indirect costs. The buildings were not occupied by the Agency's indirect functions. The Agency's management stated that the mortgage interest and depreciation expenses will be adjusted at the end of the fiscal year. The issue of not allocating expenditures appropriately to multiple programs was also noted in the prior year's monitoring review.

Olive Crest allocated more indirect costs to the Wraparound program than the amount reported in their accounting records on a monthly basis. Olive Crest allocated $145,000 as indirect cost for January 2007, instead of the $138,055 recorded in the Agency's general ledger. Olive Crest management stated that the Agency over allocated monthly

indirect expenses to include charges not identified at the time of allocation and will make an adjustment at year-end to reflect the actual expenditures.

Recommendations

Olive Crest management:

8. **Repay DCFS $1,267.**

9. **Make the year-end adjustment to ensure only actual and appropriate expenditures are allocated to Wraparound program and repay over allocated amount to DCFS.**

10. **Ensure that indirect costs are allocated according to the Cost Allocation Plan and the County contract.**

PRIOR YEAR FOLLOW-UP

Objective

Determine the status of the recommendations reported in the prior monitoring review completed by the Auditor-Controller.

Verification

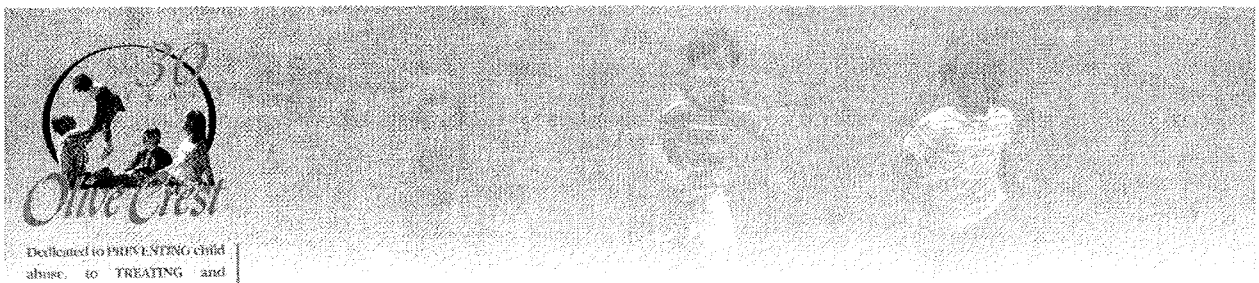
We verified whether the outstanding recommendations from the FY 2005-06 monitoring review were implemented. The report was issued in June 2006.

Results

The prior year's monitoring report contained five recommendations. Olive Crest implemented three of the five recommendations. As indicated earlier, the two remaining prior year findings were also noted during our current monitoring review.

Recommendation

11. **Olive Crest management implement the outstanding recommendations from the FY 2005-06 monitoring report.**



Olive Crest

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August 1, 2007

Mr. J. Tyler McCauley
Auditor-Controller
County of Los Angeles
500 West Temple Street, Room 525
Los Angeles, CA 90012-2766

Reference: Contract Review – Wraparound Approach Services Program

Dear Sir or Madam:

We have the following comments concerning your recommendations:

1. We will insure that all unspent Wraparound revenue is reserved and it will be a separate line item on our balance sheet.

2. We will prepare the bank reconciliation within 30 days of the bank statement date.

3. Unclaimed or undelivered checks have been reviewed at least quarterly and any checks that are more than six months old are cancelled.

4. We will ensure that the two signatures required for expenditures in excess of $5,000 are obtained.

5. We will continue to review expenditures and insure that they are classified correctly.

6. We will continue to review employees' timecards and will ensure that they are correctly approved by supervisors.

7. We will ensure that required job descriptions are correctly filed in all employees' personnel files.

ACCREDITED COA
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8. We have already reallocated our Indirect Costs to correctly allocate only those items authorized by OMB Circular A-122. We should not be required to repay funds that were allocated to the program in error during a fiscal year and then correctly reversed prior to the end of the fiscal year. We are also now allocating only the actual allowable indirect costs monthly.

9. We are in the process of doing our year-end allocations, but the appropriate amounts of authorized expenses are allocated to the Wraparound program and there are no over allocated expenses.

10. Same and 8 and 9, above.

11. We will comply both with the recommendations from the FY 2005-06 and FY 2006-07 monitoring reports.

Sincerely,

Donald Verleur II
CEO