COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2706
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
MARIA M. OMS

March 4, 2009

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **HILLSIDES CONTRACT COMPLIANCE REVIEW – A WRAPAROUND PROGRAM AND MENTAL HEALTH SERVICES PROVIDER**

We completed a fiscal and program review of Hillsides (Agency) to determine the Agency's compliance with two County contracts. The Agency contracts with the Department of Children and Family Services (DCFS) to operate the Wraparound Approach Services (Wraparound) Program and Department of Mental Health (DMH) to provide mental health services.

Background

Under the DCFS Wraparound Program, Hillsides provides individualized services to children and their families such as therapy, housing, educational and social assistance. Under the contract with DMH, Hillsides provides mental health services which include interviewing program participants, assessing their mental health needs and developing and implementing a treatment plan. Hillsides is located in the Fifth District.

DCFS paid Hillsides on a fee-for-service basis at $4,184 per child, per month less placement costs or approximately $765,000 for Fiscal Year (FY) 2007-08. DMH paid Hillsides on a cost reimbursement basis between $1.72 and $4.10 per minute of staff time ($103.20 to $246 per hour) or approximately $9.7 million for FY 2007-08.

Purpose/Methodology

The purpose of the program review of the mental health services was to determine the appropriateness of the services provided based on available documentation. This included a review of a selected sample of the Agency's billings, participant charts and personnel and payroll records. We also interviewed a number of the Agency's staff.

The purpose of the fiscal review of DCFS' Wraparound Program and mental health services was to determine whether Hillsides appropriately accounted for and spent Wraparound and DMH funds in providing the services outlined in their County contracts. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines.

Results of Review

DMH Mental Health Program Review

Hillsides staff assigned to the County contract possessed the required qualifications to provide services to participants. In addition, the program participants interviewed stated that the services they received met their expectations. However, Hillsides did not complete some elements of the Assessments, Client Care Plans and Progress Notes in accordance with the County contract. Specifically:

- The Assessments for nine of 21 (43%) clients sampled did not describe symptoms and behaviors to support the Agency's clinical diagnosis.

- The Client Care Plans for eight of 21 (38%) clients sampled did not contain specific goals that addressed the clients' needs identified in the Assessments.

- Thirteen of the 35 (37%) Progress Notes reviewed did not sufficiently document the services provided to the clients.

DCFS Wraparound and DMH Fiscal Review

Hillsides properly recorded and deposited cash receipts in a timely manner. However, Hillsides charged DCFS Wraparound and DMH Mental Health Programs for expenditures that were not allowed or adequately documented. The amount of the undocumented and unallowable expenditures totaled $141,021. Specifically, Hillsides:

- Allocated $109,988 to DMH and $3,438 to DCFS (a total of $113,426) for providing food services to Hillsides' employees. The meals and other costs related to food services were not necessary or reasonable costs for either program. Hillsides management stated that meals were provided to staff for the Agency's convenience.

- Charged DMH $7,757 for expenditures that were related to their DCFS Group Home Program.

- Charged DMH $9,906 for a pending litigation with the County.

- Charged DMH $8,079 for recruitment and summer camp costs related to other programs.

- Charged DMH $1,605 for penalty fees that are unallowable expenditures.

- Charged DMH $248 for consultant fees that were not adequately supported.

According to the Wraparound contract, at the end of a program year, the Agency is allowed to retain unspent funds up to ten percent of their program expenditures and return any funds in excess of ten percent to the County. For FY 2006-07, Hillsides' unspent revenue totaled $56,765 and program expenditures totaled $227,487. Hillsides did not set aside ten percent of the revenue for future program expenditures. We recommend that Hillsides place $22,749 (10% of $227,487) in a reserve account for future Wraparound expenditures and repay DCFS $34,016 ($56,765 - $22,749).

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

Review of Report

We discussed our report with Hillsides, DMH and DCFS on April 30, 2008 and May 21, 2008. In its attached response, Hillsides agreed to repay DCFS $11,649 for unspent Wraparound Program revenue. However, Hillsides' response also indicates that they disagreed with some of our findings. Hillsides did not agree to reimburse the County $113,426 for the cost of meals provided to their employees. Hillsides indicated that if meals were not provided, staff would need additional time to go off site for their meals, increasing their work day by at least 30 minutes and almost certainly diminishing accountability and efficiency. However, meal costs for staff are unallowable program expenditures in accordance with the County contract. In addition, representatives from DMH who attended the meetings with Hillsides concurred with our findings and indicated that DMH will request repayment for the meals.

Hillsides also questioned our clinical experience and ability to perform the DMH program review. The program reviews are conducted by a Licensed Clinical Social Worker. In addition, DMH staff reviewed our program findings in detail and agreed with all our results.

We notified DCFS and DMH of the results of our review and thank Hillsides for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Patricia S. Ploehn, Director, Department of Children and Family Services
Ted Myers, Chief Deputy Director, Department of Children and Family Services
Susan Kerr, Senior Chief Deputy, Department of Children and Family Services
Mark S. Mertens, Chair, Board of Directors, Hillsides
John Hitchcock, CEO, Hillsides
Public Information Office
Audit Committee

DEPARTMENT OF MENTAL HEALTH AND WRAPAROUND PROGRAMS
HILLSIDES
FISCAL YEAR 2007-08

BILLED SERVICES

Objective

Determine whether Hillsides (Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

Verification

We judgmentally selected 35 billings totaling 5,973 minutes from 692,569 service minutes of approved Medi-Cal billings for May and June 2007. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' chart for the selected billings. The 5,973 minutes represent services provided to 22 program participants.

Results

Hillsides maintained documentation to support the service minutes sampled. However, Hillsides did not complete some elements of the Assessments, Client Care Plans and Progress Notes in accordance with the County contract.

Assessments and Client Care Plans

The Assessments for nine (41%) of the 21 clients sampled did not describe symptoms and behaviors to support the Agency's clinical diagnosis. An Assessment is a diagnostic tool used to document the clinical evaluation of each client and establish the client's mental health treatment needs. The County contract requires the Agency to follow the Diagnostic and Statistical Manual of Mental Disorders (DSM) when diagnosing clients. The DSM is a handbook published by the American Psychiatric Association for mental health professionals, which lists different categories of mental disorder and the criteria for diagnosing them.

The Client Care Plans that Hillsides completed for eight (38%) of the 21 clients sampled did not contain specific goals that addressed the clients' needs identified in the Assessments.

Progress Notes

Hillsides did not always complete 13 (37%) of the 35 Progress Notes in accordance with the County Contract. Specifically:

- Eleven of the 13 Progress Notes billed for Mental Health services did not document what the client or service staff attempted and/or accomplished towards the clients' goals.

- Six of the 13 Progress Notes for services provided by multiple staff did not describe the contributions of the additional service staff.

Recommendation

1. **Hillsides management ensure that Assessments, Client Care Plans and Progress Notes are completed in accordance with the County contract.**

CLIENT VERIFICATION

Objectives

Determine whether the program clients received the services that Hillsides billed DMH.

Verification

We interviewed eight participants that the Agency billed DMH for services during May and June 2007.

Results

The eight program participants interviewed stated that the services they received from the Agency met their expectations.

Recommendation

There are no recommendations for this section.

STAFFING LEVELS

Objective

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency did not provide services that required staffing ratios for this particular program.

STAFFING QUALIFICATIONS

Objective

Determine whether Hillsides' treatment staff possessed the required qualifications to provide mental health services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 21 (23%) of 91 Hillsides' mental health treatment staff who provided services to DMH clients during May and June 2007.

Results

Each employee in our sample possessed the qualifications required to deliver the services billed.

Recommendation

There are no recommendations for this section.

SERVICE LEVELS

Objective

Determine whether Hillsides reported service levels varied significantly from the service levels identified in the DMH contract.

We did not perform test work in this area as DMH's contract with Hillsides did not specify the required service levels for Fiscal Year (FY) 2006-07.

UNSPENT WRAPAROUND REVENUE

Hillsides' contract with the Department of Children and Family Services (DCFS) allowed the Agency to retain unspent Wraparound funds up to ten percent of their operating expenditures in a reserve account for future Wraparound expenditures and return any Wraparound funds in excess of ten percent to the County.

For FY 2006-07, Hillsides reported unspent revenue totaling $56,765 and program expenditures totaling $227,487. As a result, Hillsides should have reserved $22,749 (10% of $227,487) for future Wraparound Program expenditures to ensure the funds are used for the Wraparound Program. Hillsides also needs to repay DCFS $34,016 ($56,765 - $22,749) as required by the County contract.

Recommendations

Hillsides management:

2. **Reserve the $22,749 and ensure that the funds are used to provide Wraparound program services in subsequent years.**

3. **Repay DCFS $34,016.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenue are properly recorded in Hillsides records and deposited timely in the Agency's bank account and 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 reconciliation for August 2007.

Results

Hillsides properly recorded and deposited cash receipts in a timely manner. However, 89 (38%) of 236 outstanding checks totaling $8,958 were over 90 days old. Forty-four (49%) of the 89 outstanding checks totaling $5,779 were issued between 2003 and 2006. In addition, the bank reconciliation was not signed and dated by the preparer and the reviewer.

Recommendations

Hillsides management:

4. **Ensure that reconciling items are resolved timely and credit the appropriate programs for any cancelled checks.**

5. **Ensure that bank reconciliations are signed and dated by the preparer and the reviewer.**

EXPENDITURES/PROCUREMENT

Objective

Determine whether Wraparound and DMH programs related expenditures are allowable under their County contracts, properly documented and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and reviewed documentation for 22 Wraparound expenditures totaling $11,539 and 52 DMH expenditures totaling $167,742 for July 2006 through October 2007.

Results

Hillsides' expenditures for the Wraparound Program were allowable, properly documented and accurately billed. However, Hillsides charged $23,672 to the DMH Program for transactions that were unallowable and unsupported. Specifically, Hillsides charged DMH:

- $9,906 in legal expenditures for a pending litigation with the County which is unallowable. The County contract indicates that the Agency must comply with the Office of Management and Budget Circular A-122 which does not allow agencies to bill governmental agencies for the legal costs related to the prosecution of claims against the government.

- $5,761 for staff recruitment costs related to other programs.

- $7,757 expenditures that were for another program. Specifically, Hillsides charged DMH $3,260 for plumbing repairs and utility costs for their swimming pool and field. Hillside also charged DMH $3,173 for food, supplies, gasoline, parking fees, theme park tickets, movie tickets, a barbeque grill and Christmas trees purchased for the Agency's group homes. Hillsides management stated that the pool and the field were only used by the children. However, DMH clients who reside in the group homes are also DCFS clients and DCFS group home contract requires the Agency to provide at least two recreational activities per month.

- $248 for consultant services that were not adequately supported. The consultant's timesheets did not support the service minutes billed by the contractor.

Recommendations

Hillsides management:

6. **Repay DMH $23,672.**

7. **Ensure that Wraparound and DMH programs funds are solely used for the specific program.**

8. **Maintain adequate supporting documentation for expenditures charged to County programs.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Hillsides' fixed assets and equipment purchased with Wraparound and DMH funds are used for the Wraparound and DMH programs and that the assets are adequately safeguarded.

Verification

We interviewed Agency personnel and reviewed the Agency's fixed assets and equipment listing. In addition, we performed a physical inventory of four Wraparound and eight DMH items funded by the program funds.

Results

Hillsides did not maintain an accurate and complete fixed assets and equipment listing. The listing did not contain the item description, serial number, acquisition cost, purchase date and source of funding as required. The Agency also did not perform an annual inventory of their fixed assets and equipment.

Recommendations

Hillsides management:

9. **Maintain a complete and accurate listing of fixed assets and equipment including the item description, serial number, acquisition cost, purchase date and source of funding.**

10. **Perform a physical inventory of their fixed assets and equipment annually.**

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the Wraparound and DMH programs and whether personnel files are maintained as required.

Verification

We reviewed Wraparound payroll expenditures totaling $10,199 for 11 employees and DMH payroll expenditures totaling $13,163 for 12 employees for September 2007. We also reviewed the personnel files for the 23 employees assigned to the Wraparound and Mental Health programs.

Results

Hillsides allocated $6,032 to the Wraparound Program and $7,764 to the DMH Program for 14 employees who worked on multiple programs by using predetermined rates not actual hours worked on each program. The employees did not indicate the hours worked each day by program on their timecards.

In addition, four (17%) of the 23 employees' timecards were not signed by the employee or the supervisor and the personnel files for five (22%) of the 23 employees did not contain transcripts or proof of education to support the employees' qualifications as required by the County contract.

Recommendations

Hillsides management:

11. **Provide documentation to support the payroll costs charged to the Wraparound and DMH programs and repay amounts not supported.**

12. **Ensure that employees' timecards indicate the actual hours worked each day by program.**

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

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

COST ALLOCATION PLAN

Objective

Determine whether Hillsides' 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 Hillsides' Cost Allocation Plan and selected sample expenditures from July 2006 through October 2007 to ensure that the expenditures were appropriately allocated to the Agency's programs.

Results

Hillsides Cost Allocation Plan was in compliance with the County contract requirements. However, Hillsides allocated $117,349 in indirect costs to the Wraparound and DMH

programs for transactions that were not allowable or did not have adequate supporting documentation. Specifically, Hillsides allocated:

DCFS Wraparound Program

$3,438 for meals provided to the Agency's staff as shared costs. The meals and other costs related to food services were not necessary or reasonable costs for the Wraparound Program. Hillsides management stated that meals were provided to staff for the Agency's convenience. In addition, the Agency does not require staff to remain at the Agency's premises during their lunch break with an exception of the group home staff.

DMH Program

- $109,988 for meals provided to the Agency's staff as shared costs. The meals and other costs related to food services were not necessary or reasonable costs for the DMH Program. Hillsides management stated that meals were provided to staff for the Agency's convenience
- $2,318 in summer camp costs incurred for another program.
- $1,605 in penalty fees that are unallowable expenditures.

Recommendations

Hillsides management:

15. **Repay DCFS $3,438.**
16. **Repay DMH $113,911.**
17. **Ensure that indirect costs are allocated according to the Cost Allocation Plan.**

COST REPORT

Objective

Determine whether Hillsides' FY 2006-07 Cost Report reconciles to the Agency's financial records.

Verification

We interviewed management and traced the Agency's FY 2006-07 Cost Report to the Agency's accounting records.

Results

Hillsides' Cost Report reconciled to the Agency's accounting records.

Recommendation

There are no recommendations for this section.

Hillsides
Creating safe places for children
940 Avenue 64, Pasadena, California 91105-2711
Phone: 323.254.2274 Fax: 323.254.0598 www.hillsides.org

John M. Hitchcock, ICSW
Executive Director
Susanne E. Crossley, ICSW
Associate Executive Director
John F. Sterner
Chief Financial Officer
Nancy E. Gagni
Director of Development
Laura Kyiso
Director of Community Resources
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Member of the
Child Welfare
League of America

RECEIVED
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AUDITOR-CONTROLLER

June 10, 2008

Wendy Watanabe
Acting Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, CA 90012-2706

Dear Ms Watanabe:

Hillsides disagrees with many of the findings in this audit of our DCFS Wraparound Program and DMH mental health services. If there was a formal appeal process we would certainly be using it.

First, it should be noted that, even though we have presented compelling evidence to rebut many of the preliminary findings, the A/C team chose to ignore that evidence in all but a few instances. We believe that an independent evaluator familiar with State Regulations would come up with findings in line with our evidence.

Secondly, we question whether the extraordinary amount of time your department spent in sorting through our records, requesting minute detail on expenditures, calling for further documentation, etc. is worth the cost of doing this audit. Those time and cost implications are compounded by the hundreds of hours my staff had to commit to this seemingly endless process.

Specifically, the audit identified a Wraparound Program surplus of $56,765 for FY 06-07. This hardly qualifies as a finding, since we had already been informed that any surplus that was realized from the program should be reserved for program clients and/or returned. We were awaiting instructions from DCFS as to how to proceed.

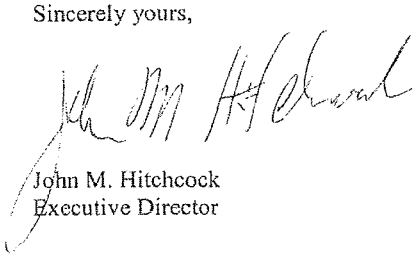
The total of unallowable expenditures was $137,583 for DMH (less than 1.6% of contract) and $3,438 for Wraparound (1.2% of contract). Of this total, $113,426 was allocated food expenditure for staff lunches which could and should have been readily identified by a quick examination of our shared overhead line. Of the remaining $27,595, we concur with $11,649 but contest the remaining $15,946.

ACSA
California Association of Services for Children

We do not contend that the County should not conduct audits. As a citizen, I would want to know that contracts are being audited. Rather, our contention is that the extreme detail, the time, the contentiousness that is generated by this type of audit is not what I would want my taxes to go for. A three day audit would have more than sufficed to identify the Wraparound surplus and the allocated food findings. The remaining 27,595 (.03% of total budget) was hardly worth the time and certainly does not justify the expense to find it.

Attached are our itemized response to both the program and financial findings.

Sincerely yours,



John M. Hitchcock
Executive Director

Draft Audit Financial Report

UNSPENT WRAPAROUND REVENUE

Hillsides will comply with the directive of DCFS with respect to the disposition of surplus funds totaling $56,675.

CASH / REVENUE

Hillsides will ensure that reconciling items are resolved in a timely manner and that bank reconciliations are routinely signed and dated by the preparer and the reviewer.

EXPENDITURES / PROCUREMENT

- MH Program
  - $9,906 Hillsides evidently has no choice but to concur with the audit finding disallowing $9,906 of legal expenses but continues to believe that costs incurred to enforce its contractual rights should be allowable.
  - $5,761 Hillsides concurs.
  - $7,757 Hillsides agrees with $2,167 but contests the remaining $5,590 which was disallowing as "socialization activities...not allowed to be charged to DMH as this expense was not approved by the DMH contract, therefore, not allowable expense" (cited from audit worksheet). The expenses are attributable to Hillsides contractually authorized therapeutic rehabilitation services or, in one case therapeutic behavioral services (billed under procedure codes H2015 and H2019 respectively). Hillsides was unable to find any contractual prohibition on "socialization activities expenses" or other contractual language which would preclude these expenses.
  - $248 Hillsides concurs.

  Hillsides has sufficient funds raised through its development efforts to cover the DMH expenses not allowed. Accordingly, we will submit a revised Cost Report which excludes those DMH expenses which are disallowed.

FIXED ASSETS AND EQUIPMENT

Hillsides is taking steps to improve the accuracy and timeliness of its fixed assets and equipment listings and will perform appropriate periodic inventories.

PAYROLL AND PERSONNEL

The audit maintains that documentation supporting the allocation of staff who worked in multiple programs to be insufficient in that it did not provide specific hours worked each day by program on their time cards.

In the interest of efficiency and program effectiveness, Hillsides assigns certain staff to more than one program. Hillsides will review its tracking and time recording for such staff and ensure that they conform to the requirements set forth in the A-122. Hillsides will take steps to ensure that employee files contain proof of qualification and that time records are signed by the supervisor.

COST ALLOCATION PLAN

- DCFS Wraparound Program
  - Hillsides disagrees with the finding that $3,438 of shared staff meal and related food service expense should be disallowed as "....not necessary or reasonable costs for the Wraparound Program."
    Hillsides has found that providing food services to staff is an efficient and effective means of keeping staff engaged with clients and readily available in the event of a client emergency or need and of promoting staff morale and cohesiveness. Staff routinely discuss agency business during meals. If meals were not provided, staff would have to be given additional time to go off site for their meals, necessitating an increase in the work day of at least 30 minutes and almost certainly diminishing accountability and efficiency. In view of these considerations, Hillsides believes that this expense allocation should be allowed.

- MH Program
  - Hillsides disagrees with the finding that $109,988 of shared staff meal and related food service expense should be disallowed as "....not necessary or reasonable costs for the DMH Program."
    Hillsides has found that providing food services to staff is an efficient and effective means of keeping staff engaged with clients and readily available in the event of a client emergency or need and of promoting staff morale and cohesiveness. Staff routinely discuss agency business during meals. If meals were not provided, staff would have to be given additional time to go off site for their meals, necessitating an increase in the work day of at least 30 minutes and almost certainly diminishing accountability and efficiency. In view of these considerations, Hillsides believes that this expense allocation should be allowed.
  - $2,318 Hillsides concurs.
  - $1,605 Hillsides concurs.

Hillsides has sufficient funds raised through its development efforts to cover the DMH expenses not allowed. Accordingly, we will submit a revised Cost Report which excludes those DMH expenses which are disallowed.

Draft Audit Program Report

Note in the draft report: The Client Care Plans for eight are 38% not 54%

ASSESSMENT FINDINGS

As we documented in the exit interview, five out of six of the residential assessments sampled contained adequate information, per the Department of Mental Health's approved source, the Diagnostic and Statistical Manual of Mental Disorders (VI R), to support the clinician's diagnostic formulation. This information, including DSM references, is available for review. The audit review of the assessments, to focus on one area for purposes of analysis, was clearly flawed for a number of reasons:

- Failure to follow DSM protocols and disclaimers in making a diagnostic formulation. For example, the DSM contains a very important cautionary statement, highlighted as a separate section in the opening pages: "The specific diagnostic criteria included in the DSM VI are not meant to be used in cookbook fashion." The evaluation indeed pulled some symptoms and behaviors out of the assessments, and completely ignored others, without regard to context, history or clinical observations and judgment.
- Interpretive bias towards the diagnosis of Disruptive Behavior Disorders over Mood Disorders. The evaluation, contrary to diagnostic protocols and good practice, failed to recognize whole sets of behavioral problems that are symptoms of and caused by more profound mood disorders such as Depression, Bipolar Disorder and Posttraumatic Stress Disorder, particularly in children. The evaluator actively promoted Oppositional Defiant Disorder as the appropriate diagnosis for severely traumatized children in spite of the fact that previous clinicians, including psychiatrists and psychologists, had diagnoses mood disorders. The evaluation also failed to make the crucial distinction between unsocialized behavior and antisocial behavior in children, particularly those from chaotic and abusive backgrounds.
- Failure to recognize and apply diagnostic protocols specific to children and the emotional disorders that frequently occur in childhood. The DSM is filled with interpretive guidelines for clinicians diagnosing children. To cite three examples: "Certain symptoms, such as irritability (in children with mood disorders) are particularly common in children" and "In pre-pubertal children, Major Depressive Episodes occur more frequently in conjunction with other mental disorders , especially Disruptive behavior Disorders," and "Atypical features, including symptoms that mimic Oppositional Defiant Disorder are more common in younger people."
- The evaluation, in reviewing assessments and the diagnostic formulations, applied overly rigorous attention to procedural details, such as the names of the people who provided client information, rather than recognizing the quality of the information that was carefully gathered, and its use in arriving at an accurate diagnosis.
- The evaluation also failed to apply the same standard to each assessment reviewed, focusing upon certain areas in one assessment, and others in those that followed, attempting to find a pattern of non-compliance with DMH requirements, rather than fairly evaluating each assessment according to a consistent and transparent set of standards for clinical review.

These problems raise the question of whether the Auditor-Controller's office currently has the internal resources to conduct a clinical audit of children's mental health charts. Clinical chart review

requires astute and intensive supervisory oversight to ensure that the audit, in scope and in findings, is a disciplined and fair process. The improvisational quality of this audit would make it difficult in the future to address in some coherent way the issues raised by the evaluator. We would like to request more training for clinical audit staff in use of the DSM-IV R and current diagnostic protocols in assessing children, along with a more comprehensive internal review of audit findings by experienced supervisory-level clinicians.