COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

October 17, 2002

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **PROGRAM AND FISCAL MONITORING OF COMMUNITY AND SENIOR SERVICES' FISCAL YEAR 2001-2002 DISPUTE RESOLUTION PROGRAM SERVICE PROVIDERS**

The Board of Supervisors has designated Community and Senior Services (CSS) to administer the Dispute Resolution Program (DRP). The program is funded through surcharges on court filing fees that are authorized by the State Dispute Resolution Act of 1986. The program offers residents of Los Angeles County the opportunity to voluntarily resolve minor disputes with the assistance of a neutral mediator/conciliator, rather than resort to lengthy formal legal proceedings in court. CSS must ensure that these funds are utilized by their subcontractors (service providers) in accordance with Program requirements.

CSS requested program and fiscal monitoring reviews of their Fiscal Year 2001-2002 service providers receiving DRP funds. We contracted with Ramirez International (Ramirez) to conduct the monitoring. Ramirez's monitoring provided CSS with an early warning of problems related to the service providers' compliance with applicable County and State regulations, which govern the DRP.

Ramirez completed their monitoring for Fiscal Year 2001-2002 and has separately reported the results of their monitoring reviews for the 17 service providers (see Attachment I). Their final reports contained a total of 56 recommendations of which 25 were implemented to Ramirez's satisfaction at the time they completed their follow-up reviews. The 31 outstanding recommendations pertained to deficiencies related to fiscal/accounting issues, contract compliance and unmet performance goals. CSS informed us that they have resolved the remaining deficiencies with the service providers.

Additionally, Ramirez's Management Letter (Attachment II) included 3 recommendations related to CSS's internal controls and administration of the DRP. CSS's response to the management letter is included in Attachment III.

All reports were discussed with CSS and the service providers. Because of the number of service provider reports, copies of individual reports are not enclosed, but are available for your review.

Please call me or have your staff call Don Chadwick at (213) 974-0333 if you wish to review any reports.

JTM:DR

Attachments

C: David E. Janssen, Chief Administrative Officer
Department of Community and Senior Services
Robert Ryans, Director
Ester Soriano, DRP Compliance Officer
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

Attachment I

SERVICE PROVIDERS
2001-2002 DISPUTE RESOLUTION PROGRAM

1. A. Milton Milner Fund d.b.a. Western Law Center for Disability Rights
2. Asian Pacific American Legal Center of Southern California, Dispute Resolution Center
3. California Academy of Mediation Professionals
4. California Lawyers for the Arts, Arts Arbitration and Mediation Services
5. Center for Conflict Resolution
6. Centinela Valley Juvenile Diversion Program - Mediation and Restitution
7. City of Norwalk Consumer Rental Mediation Board
8. Claremont Dispute Resolution Center
9. Inland Valley Justice Center, Inc. (IVJC)
10. Korean American Coalition
11. Los Angeles County Bar Association, Dispute Resolution Services, Inc.
12. Los Angeles County CSS – Voluntary Mediation Services
13. Los Angeles County Dept. of Consumer Affairs, Dispute Settlement Services
14. Los Angeles Superior Court
15. Loyola Law School, The Center for Conflict Resolution
16. Martin Luther King Legacy Association, Martin Luther King Dispute Resolution Center
17. Offices of the Los Angeles City Attorney, Dispute Resolution Program

RAMIREZ
INTERNATIONAL
Financial & Accounting Services
A Professional CPA Corporation

August 6, 2002

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

Dear Mr. McCauley:

In accordance with Work Order 6-12, we have prepared this Management Letter on the administration of the Community and Senior Services (CSS) internal accounting controls and administration of the Dispute Resolution Program.

Overall, it appears that CSS adequately administers DRP. They have developed a very good understanding of the challenges faced by the contractors and work effectively with the contractors to overcome those challenges. Even so, during the course of our monitoring, the following issues came to our attention.

Service Provider Issues:

1. The standard Provider Contract requires Service Providers to report fiscal information and performance information 5 days after month end. Public Agencies (for example, Cities, County Departments, and Superior Court) are hindered from providing timely fiscal reports because the information is provided to them after the DRP reporting deadline. Private organizations struggle to meet the deadlines because of limited staffing.

   Recommendation: CSS should consider modifying the standard contract to allow more time for all Service Providers to prepare these reports for the CSS.

2. The standard Provider Contract requires Service Providers to obtain annual audited financial statements. Generally, the Public Agencies' Service Providers are not obtaining annual audited statements; however, their counterparts in the private sector are being required to have annual audited financial statements or grant monies are being withheld. The cost of annual audits is very burdensome and can represent 30% to 50% of the entire grant award.

   CSS performs due diligence on each potential Service Provider prior to approving grant awards. Additionally, CSS requires an independent 3rd party to perform 2 site visits per year during which detailed fiscal testing is performed. This results of this effort provides some basic information about the financial reporting accuracy of the Service Providers.

   Recommendation: CSS should consider eliminating the annual audit requirement for all Service Providers unless certain conditions occur; such as, inability to provide fiscal reports timely or CSS and 3rd party monitoring reveals material concerns about the accuracy of the information being reported. Alternatively, CSS could change the audit requirement to a review or compilation requirement, changing the requirement back to an audit if monitoring reveals material concerns.

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CSS Issues:

During 2001 and 2002, numerous corporate travesties have come to light, from fraud (such as Enron and Worldcom) to conflicts of interest (like Merrill Lynch with Enron). Undue influence/pressure by organizations or people in positions of power can result in problems going unchecked and uncorrected and oftentimes results in inequitable treatment amongst interested parties. Heightened awareness and concern by congress and the general public suggests every organization should examine how they do business and how others do business with them.

Recommendation: CSS should take this opportunity to review their current policies and procedures to determine if any updates or revisions are necessary. Additionally, CSS should periodically examine current practices to ensure all personnel are adhering to the policies and procedures.

We appreciate the opportunity to work with the County and CSS in the administration and monitoring of the Dispute Resolution Program. If we can be of further assistance, please do not hesitate to contact us.

Very truly yours,

RAMIREZ INTERNATIONAL

Manuel J. Ramirez, CPA, MST, DABFA
President/CEO

Attachment III

ROBERT RYANS
Director

COMMUNITY AND SENIOR SERVICES
OF LOS ANGELES COUNTY

October 15, 2002

TO: J. Tyler McCauley, Auditor-Controller

FROM: Robert Ryans, Director

SUBJECT: **Response to Ramirez International (RI) Management July 25, 2002 Letter Work Order 6-12**

This is in response to the Ramirez International (RI) Management letter sent to you dated July 25, 2002. The following issues and recommendations were discussed with Manual Ramirez of RI:

RI Issues:

1. *"The standard Provider Contract requires Service Providers to report fiscal information and performance information 5 days after month end. Public Agencies (for example, Cities, County Departments, and Superior Court) are hindered from providing timely fiscal reports because the information is provided to them after the DRP reporting deadlines. Private organizations struggle to meet the deadlines because of limited staffing."*

"Recommendation: CSS should consider modifying the standard contract to allow more time for all Service Providers to prepare these reports for the CSS."

CSS Response:

CSS has modified the FY 2002-03 Contract language to allow agencies to submit their performance reports on or before the 25th of each month.

RI Issues:

2. *"The standard Provider contract requires Service Providers to obtain annual audited financial statements. Generally, the Public Agencies' Service Providers are not obtaining annual audited statements, however, their counterparts in the private sector are being required to have annual audited financial statements or grant monies are being withheld. The cost of annual audits is very burdensome and can represent 30% to 50% of the entire grant award CSS performs due diligence on each potential Service Provider prior to approving grant awards. Additionally, CSS requires an independent 3rd party to perform 2 site visits per year during which detailed fiscal testing is performed.*

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The result of this effort provides some basic information about the financial reporting accuracy of the Service Providers."

RI Recommendation: *"CSS should consider eliminating the annual audit requirement for all Service Providers unless certain conditions occur; such as, inability to provide fiscal reports timely or CSS and 3rd party monitoring reveals material concerns about the accuracy of the information being reported. Alternatively, CSS could change the audit requirement to a review or compilation requirement, changing the requirement back to an audit if monitoring reveals material concerns."*

CSS Response:

We appreciate RI's recommendation. However, CSS will continue to require service providers to submit annual audited financial statements to verify the accuracy of financial information being reported to our Department. In addition, RI noted that the cost of an annual audit is very burdensome and can represent 30% to 50% of the entire grant award. However, for the Dispute Resolution Program, we noted that only .5% ($16,500) of the program's total grant amount of $3.2 million was expensed for annual financial audit services during Fiscal Year 2001-02.

RI Issues:

3. *"During 2001 and 2002, numerous corporate travesties have come to light, from fraud to conflicts of interest. Undue influence/pressure by organization or people in positions of power can result in problems going unchecked and uncorrected and often times results in inequitable treatment amongst interested parties. Heightened awareness and concern by congress and the general public suggests every organization should examine how they do business and how others do business with them."*

RI Recommendation: *"CSS should take this opportunity to review their current policies and procedures to determine if any updates or revisions are necessary. Additionally, CSS should periodically examine current practices to ensure all personnel are adhering to the policies and procedures."*

CSS Response:

CSS continually reviews policies and procedures as it applies to the Dispute Resolution Program Act. DRP Personnel have quarterly meetings to review and determine if policies and procedures need to be revised.

If you have any questions, please feel free to contact me or my staff, Ester Soriano at 213-738-2621.