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

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J. TYLER McCAULEY
AUDITOR-CONTROLLER


June 9, 2006

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **FISCAL MONITORING OF DEPARTMENT OF COMMUNITY AND SENIOR SERVICES' FISCAL YEAR 2004-05 AREA AGENCY ON AGING PROGRAM SERVICES**

The Department of Community and Senior Services (CSS) contracts with cities and community-based, non-profit organizations (service providers) to provide Area Agency on Aging (AAA) program services. AAA program services include meals, legal assistance, health insurance counseling, housekeeping and personal care for older and functionally-impaired adults.

There are two types of AAA service contracts, cost reimbursement and fee-for-service. Cost reimbursement contracts pay providers for the actual cost of the services provided. Fee-for-service contracts pay providers a set fee for each unit of service provided. CSS' AAA fee-for-service contracts also require that if a fee-for-service provider's actual costs are less than the total amount they are paid, the service provider must either get approval from CSS to use the excess earnings to provide AAA services, or return the excess earnings to CSS.

At the request of CSS, we contracted with two Certified Public Accountants, Simpson & Simpson and M. R. Grant (monitors), to conduct fiscal monitoring of the 51 AAA service providers that had contracts with CSS during fiscal year 2004-05. CSS paid approximately $18.5 million to the AAA service providers during the year.

The fiscal monitoring was done in two phases; Phase One on-site visits covered the contract period from July 1 through October 31, 2004, and Phase Two covered November 1, 2004 through March 31, 2005. During Phase Two, the monitors also followed up on the findings and recommendations from the Phase One reports.

## REVIEW SUMMARY

The monitors have completed their fiscal monitoring reviews and have reported the results for each service provider to CSS and to each service provider. Attachment 1 summarizes the total number of findings for each service provider and the dollar findings for the cost reimbursement contracts. Attachment 2 summarizes the dollar findings for the fee-for-service contracts.

The monitors identified $88,486 in questioned payments to providers with cost reimbursement contracts. These questioned payments related to costs that were incorrectly allocated to the AAA program, costs not adequately documented, and costs that were incorrectly recorded in the providers' accounting records. If service providers are unable to resolve the questioned costs, they will have to return these amounts to CSS.

The monitors also identified $614,771 in findings for fee-for-service contracts. These findings primarily related to improperly allocated costs, unrecorded program revenue, and a lack of documentation showing the contractors' use of their own funds to pay a percentage of program expenses, as required by the AAA contract. If these findings are not resolved, the service providers will need to adjust their revenues and/or expenses, which could result in excess earnings. As noted earlier, if fee-for-service providers have excess earnings, the funds must either be used to provide AAA services or be returned to CSS. We understand that during the FY 2005-06 AAA fiscal monitoring, the monitors will determine whether any of the providers had excess earnings for FY 2004-05.

The monitors also prepared management letters (Attachments 3 and 4), which include recommendations for CSS to ensure service providers comply with AAA contract and program requirements. For example, the monitors recommended that CSS ensure service providers comply with Office of Management and Budget cost principles and formally monitor their subcontractors.

## REVIEW OF REPORT

Each report was discussed with CSS and the appropriate service provider. CSS has indicated that they will work with the service providers to resolve all the monitors' findings by September 30, 2006. Attachment 5 is CSS' response and action plan to address the monitors' recommendations.

Because of the number of service providers, copies of individual reports are not enclosed, but are available for your review. Please call if you have any questions, or have your staff call Terri Kasman at (626) 293-1121 if you wish to review any reports.

JTM:MMO:JLS:TK
H:\ AAA 2004-05 Board Letter

Attachments

c: David E. Janssen, Chief Administrative Officer
Department of Community and Senior Services
Cynthia D. Banks, Director
Melinda Fonseca, Assistant Director, Aging and Adult Services
Sachi A. Hamai, Executive Officer
Public Information Office
Audit Committee

**Department of Community and Senior Services**
**Fiscal Monitoring of Area Agency on Aging Service Providers**
**Fiscal Year 2004-05**

**Attachment 1**

| | Service Provider | No. of Phase I Recommendations | No. of Phase I Recommendations Implemented | No. of Phase II Recommendations | Dollar Findings for Cost Reimbursement Contracts | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | A | B | C | D | E | Total |
| 1 | AltaMed Health Services Corporation | 3 | 1 | 2 | | | | | (1) | (1) |
| 2 | Alzheimer's Association | 3 | 2 | 1 | | | | | | |
| 3 | Antelope Valley Committee on Aging | 8 | 2 | 3 | | $18 | | | | $18 |
| 4 | Armenian Relief Society | 2 | 1 | 0 | | | | | | |
| 5 | Behavioral Health Services | 2 | 1 | 1 | | | | | | |
| 6 | Bet Tzedek | 3 | 1 | 3 | | $8,010 | | | | $8,010 |
| 7 | Casa Maravilla, Inc. | 2 | 1 | 1 | | | | | | |
| 8 | Center for Health Care Rights | 2 | 1 | 1 | (1) | | | | | (1) |
| 9 | City of Alhambra | 2 | 1 | 0 | | | | | | |
| 10 | City of Azusa | 1 | 0 | 2 | | | | | | |
| 11 | City of Burbank | 6 | 3 | 2 | | | | | | |
| 12 | City of Claremont | 1 | 0 | 1 | | | | | | |
| 13 | City of Gardena | 3 | 1 | 3 | | | | | | |
| 14 | City of Glendale | 3 | 1 | 2 | | | | | | |
| 15 | City of Inglewood | 1 | 0 | 1 | | | | | | |
| 16 | City of Norwalk | 1 | 0 | 2 | | | | | | |
| 17 | City of Pomona | 1 | 1 | 0 | | | | | | |
| 18 | City of Santa Monica | 3 | 1 | 3 | | $44 | | | | $44 |
| 19 | City of South El Monte | 3 | 1 | 2 | | | | | | |
| 20 | City of West Covina | 3 | 2 | 1 | | | | | | |
| 21 | Consulting Nutritional Service | 3 | 1 | 1 | | | | | | |
| 22 | Culver City Senior Nutrition | 5 | 2 | 2 | | $82 | | | | $82 |
| 23 | Dickison Community Lighted Schools | 2 | 0 | 2 | | | | | | |
| 24 | El Monte, City of | 1 | 0 | 3 | | $600 | | | | $600 |
| 25 | Escapa-Chinatown | 2 | 1 | 2 | | $3,036 | | | | $3,036 |
| 26 | Food & Nutrition Management | 4 | 2 | 2 | | | | | | |
| 27 | Heritage Clinic & Community Assistance | 2 | 2 | 1 | (1) | | | | (1) | (1) |
| 28 | Human Services Association | 0 | 0 | 0 | | | | | | |
| 29 | Huntington Hospital Association/Pasadena | 3 | 2 | 1 | | $225 | | | | $225 |
| 30 | Jewish Family Services | 2 | 0 | 2 | | | | | | |
| 31 | Just Rite Community Programs | 2 | 0 | 2 | | | | | | |
| 32 | Life Steps Foundation | 3 | 0 | 3 | (1) | (1) | | $40 | (1) | $40<br>(1) |
| 33 | Los Amigos Research & Education/Rancho Adult Day Care | 1 | 0 | 3 | | | | | | |
| 34 | LTSC Community Development Corporation | 2 | 0 | 2 | | | | | (1) | (1) |
| 35 | Office of Samoan Affairs | 5 | 3 | 2 | | $644 | | | | $644 |
| 36 | Oldtimers Foundation, Inc. | 3 | 0 | 3 | | $1,325 | | | | $1,325 |
| 37 | Partners In Care Foundation ADHCC | 7 | 5 | 1 | (1) | (1) | | | | (1) |
| 38 | Pomona Valley Community Service | 3 | 2 | 1 | | | | | | |

**Department of Community and Senior Services**
**Fiscal Monitoring of Area Agency on Aging Service Providers**
**Fiscal Year 2004-05**

**Attachment 1**

| | Service Provider | No. of Phase I Recommendations | No. of Phase I Recommendations Implemented | No. of Phase II Recommendations | Dollar Findings for Cost Reimbursement Contracts | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | A | B | C | D | E | Total |
| 39 | San Gabriel Valley YWCA | 1 | 0 | 1 | | | | | | |
| 40 | Santa Anita Family Service | 3 | 1 | 6 | | | | | | |
| 41 | Santa Clarita Valley Committee on Aging | 7 | 6 | 2 | | $30,370 | | | (1) | $30,370 (1) |
| 42 | Senior Care Action Network (SCAN) | 3 | 2 | 1 | | | $708 | | | $708 |
| 43 | Single Room Occupancy Housing Corp | 1 | 1 | 0 | | | | | | |
| 44 | Southeast Area Social Services Funding Authority (SASSFA) | 1 | 0 | 1 | | | | | | |
| 45 | Special Services for Groups | 6 | 3 | 2 | | $160 | | | | $160 |
| 46 | St. Barnabas Senior Center | 3 | 1 | 2 | | $120 | | | | $120 |
| 47 | Torrance/South Bay YMCA | 1 | 1 | 1 | | | | | | |
| 48 | USC/LA Caregiver Resource Center | 0 | 0 | 0 | | | | | | |
| 49 | Villa Esperanza | 5 | 3 | 9 | $1,035 (1) | $9,806 (1) | | $2,041 (1) | (1) | $12,882 (1) |
| 50 | Volunteers of America of Los Angeles | 3 | 2 | 2 | | | | | | |
| 51 | WISE | 2 | 1 | 3 | $27,572 | $2,650 | | | | $30,222 |
| | **Total** | 139 | 62 | 94 | $28,607 | $57,090 | $708 | $2,081 | (1) | $88,486 |

**Code Summary**

**A** No documentation to support the cost allocation method or expenses were improperly allocated to the programs
**B** Expenditures or units of service billed are not supported with documentation
**C** Discretionary expenditures made without County approval
**D** Expenditures billed are inappropriately recorded on service provider's accounting records
**E** Does not meet matching requirements or improperly recorded matching expenses

**(1)** Contractor was not able to determine the dollar value of one or more findings in this category.

**Department of Community and Senior Services** **Attachment 2**
**Fiscal Monitoring of Area Agency on Aging Service Providers**
**Fiscal Year 2004-05**

| | Service Provider | Dollar Findings for Fee For Service Contracts | | | | | |
|---|---|---|---|---|---|---|---|
| | | A | B | C | D | E | Total |
| 1 | AltaMed Health Services Corporation | (1) | | | $92,650 | $119,524 | $212,174 (1) |
| 2 | Alzheimer's Association | $1,222 | | | | | $1,222 |
| 3 | Antelope Valley Committee on Aging | $3,134 (1) | $2 | | | (1) | $3,136 (1) |
| 4 | Armenian Relief Society | | | | | (1) | (1) |
| 5 | Behavioral Health Services | (1) | | | | | (1) |
| 6 | Bet Tzedek | (1) | | | | $89,758 (1) | $89,758 (1) |
| 7 | Casa Maravilla, Inc. | (1) | | | | $15,478 | $15,478 (1) |
| 8 | Center for Health Care Rights | | | | | | $0 |
| 9 | City of Alhambra | (1) | | | | | (1) |
| 10 | City of Azusa | (1) | | | | (1) | (1) |
| 11 | City of Burbank | | $111 | | $42,793 | (1) | $42,904 (1) |
| 12 | City of Claremont | (1) | | | | | (1) |
| 13 | City of Gardena | $15,106 | | | | $122,648 (1) | $137,754 (1) |
| 14 | City of Glendale | $550 (1) | | | | | $550 (1) |
| 15 | City of Inglewood | | (1) | | | | (1) |
| 16 | City of Norwalk | (1) | | | (1) | (1) | (1) |
| 17 | City of Pomona | | | | | (1) | (1) |
| 18 | City of Santa Monica | (1) | | | | (1) | (1) |
| 19 | City of South El Monte | | $4,045 | | | (1) | $4,045 (1) |
| 20 | City of West Covina | $131 (1) | | | | | $131 (1) |
| 21 | Consulting Nutritional Service | (1) | | | | (1) | (1) |

**Department of Community and Senior Services** **Attachment 2**
**Fiscal Monitoring of Area Agency on Aging Service Providers**
**Fiscal Year 2004-05**

| | Service Provider | Dollar Findings for Fee For Service Contracts | | | | | |
|---|---|---|---|---|---|---|---|
| | | A | B | C | D | E | Total |
| 22 | Culver City Senior Nutrition | | $4,987 (1) | | | (1) | $4,987 (1) |
| 23 | Dickison Community Lighted Schools | (1) | | | | | (1) |
| 24 | El Monte, City of | (1) | | | | (1) | (1) |
| 25 | Escapa-Chinatown | (1) | | | | | (1) |
| 26 | Food & Nutrition Management | (1) | | | $1,082 | (1) | $1,082 (1) |
| 27 | Heritage Clinic & Community Assistance | | | | | | $0 |
| 28 | Human Services Association | | | | | | $0 |
| 29 | Huntington Hospital Association/Pasadena | $24,000 (1) | | | | | $24,000 (1) |
| 30 | Jewish Family Services | (1) | | | | (1) | (1) |
| 31 | Just Rite Community Programs | (1) | | | | (1) | (1) |
| 32 | Life Steps Foundation | | | | | | $0 |
| 33 | Los Amigos Research & Education/Rancho Adult Day Care | (1) | | | | (1) | (1) |
| 34 | LTSC Community Development Corporation | $1,710 | | | | | $1,710 |
| 35 | Office of Samoan Affairs | (1) | | | | (1) | (1) |
| 36 | Oldtimers Foundation, Inc. | (1) | | | $349 | (1) | $349 (1) |
| 37 | Partners In Care Foundation ADHCC | | | | | $4,878 | $4,878 |
| 38 | Pomona Valley Community Service | (1) | | | | (1) | (1) |
| 39 | San Gabriel Valley YWCA | (1) | | | | | (1) |
| 40 | Santa Anita Family Service | (1) | | | $5,802 (1) | (1) | $5,802 (1) |
| 41 | Santa Clarita Valley Committee on Aging | (1) | $120 | | | (1) | $120 |
| 42 | Senior Care Action Network (SCAN) | (1) | | | (1) | | (1) |
| 43 | Single Room Occupancy Housing Corp | | | | | (1) | (1) |
| 44 | Southeast Area Social Services Funding Authority (SASSFA) | | | | | (1) | (1) |

**Department of Community and Senior Services** **Attachment 2**
**Fiscal Monitoring of Area Agency on Aging Service Providers**
**Fiscal Year 2004-05**

| | Service Provider | Dollar Findings for Fee For Service Contracts | | | | | |
|---|---|---|---|---|---|---|---|
| | | A | B | C | D | E | Total |
| 45 | Special Services for Groups | (1) | | | $871 | (1) | $871 (1) |
| 46 | St. Barnabas Senior Center | (1) | | | | (1) | (1) |
| 47 | Torrance/South Bay YMCA | $111 | | | | | $111 |
| 48 | USC/LA Caregiver Resource Center | | | | | | $0 |
| 49 | Villa Esperanza | | | | $48,620 | (1) | $48,620 (1) |
| 50 | Volunteers of America of Los Angeles | | (1) | | $6,568 | | $6,568 (1) |
| 51 | WISE | $8,521 | | | (1) | | $8,521 (1) |
| **Total** | | $54,485 | $9,265 | $0 | $198,735 | $352,286 | $614,771 |

**Code Summary**

**A** No documentation to support the cost allocation method or expenses were improperly allocated to the programs
**B** Expenditures charged to program are not supported with documentation
**C** Discretionary expenditures made without County approval
**D** Program expenditures or revenues are inappropriately recorded on service provider's accounting records
**E** Does not meet matching requirements or improperly recorded matching expenses

**(1)** Contractor was not able to determine the dollar value of one or more findings in this category.

Attachment 3

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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
CARL P. SIMPSON, CPA

Mr. J. Tyler McCauley
Auditor-Controller
525 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012-2766

In planning and performing the 2004-2005 Department of Community and Senior Services Area Agency on Aging (AAA) Programs Fiscal Monitoring, we noted certain matters involving the Department of Community and Senior Services' (CSS) internal control structure relating to accounting and contract administration that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report AAA grant expenditures.

Our observations and recommendations are presented in Exhibit I.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the AAA program grant expenditures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The scope of our engagement was limited to monitoring AAA service providers and did not include considering and providing assurance on CSS' internal control structure. Such monitoring would not disclose all matters in CSS' internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described in Exhibit I is a material weakness.

This report is intended solely for the use of the County of Los Angeles and is not intended to be and should not be used by anyone other than the specified party.

Simpson & Simpson

Los Angeles, California
August 8, 2005

CPA℠
The CPA. Never Underestimate The Value.℠

Condition # 1 – Inappropriate Cost Allocations Charged by the Service Providers

During our monitoring visits, we noticed that certain service providers inappropriately charged indirect or shared costs to the AAA programs or did not maintain the required documentation for the charged costs. Some of the service providers did not have an adequate understanding of the cost principles established by the Office of Management and Budget that pertain to the administration and accounting of federal awards.

We recommend the following:

1. CSS should work closely with the service providers, and provide technical assistance if necessary, to:

    - Ascertain that they have an adequate understanding of the cost principles established by the Office of Management and Budget that pertain to the administration and accounting of federal awards.

    - Ensure the service providers are applying the cost principles, established by the Office of Management and Budget, in their accounting of grant expenditures.

2. CSS should review the cost allocation plans as soon as they are submitted and provide feedback and technical assistance if necessary.

Condition #2 – Service Provider's Lack of Understanding of the Matching Requirements

Under the AAA program's matching requirement, the service providers are required to use their own funds or in-kind donations to fund a percentage of the program expenses. For example, if the contract requires a 15% matching from the service provider, then 15% of the program's total expenses must be paid for by the service provider's own funds (instead of by the contract funds from CSS) or from in-kind donations such as donated services.

During our monitoring visits, we noticed that certain service providers appear to not have an adequate understanding of the matching requirements and the documents the service provider needs to maintain to support the matching costs.

We recommend that CSS provide technical assistance to the service providers to ensure the service providers understand and comply with the matching requirements.

**M. R. GRANT, CPA,**
*an Accountancy Corporation*
Certified Public Accountants

December 30, 2005

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

In planning and performing the 2004-2005 Department of Community and Senior Services Area Agency on Aging (AAA) Programs Fiscal Monitoring for two Service Providers, we noted certain matters involving the Department of Community and Senior Services' (CSS) internal control structure relating to accounting and contract administration that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report AAA grant expenditures.

Our observations and recommendations are presented in Exhibit I.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the AAA program grant expenditures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The scope of our engagement was limited to monitoring AAA Service Providers and did not include considering and providing assurance on CSS' internal control structure. Such monitoring would not disclose all matters in CSS' internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described in Exhibit I is a material weakness.

This report is intended solely for the use of County of Los Angeles and is not intended to be and should not be used by anyone other than the specified party.

M. R. Grant

M. R. Grant, CPA

**Member of the American Institute of Certified Public Accountants**
**6333 Wilshire Boulevard, Suite 511 • Los Angeles, CA 90048 • (323) 655-7455 • Fax (323) 655-0547**

**EXHIBIT I**

**CONDITION #1** - No formal monitoring of subcontractor's work

During our monitoring visits, we noticed that certain Service Providers had no formal monitoring of their subcontractor's work.

We recommend that CSS enforce the contract requirement that Service Providers formally monitor their subcontractors' work.

**CONDITION #2** - Revenue derived from AAA Program was not recorded in the general ledger

During our monitoring visits, we noticed that a Service Provider did not record revenue derived from AAA in the general ledger.

We recommend that CSS enforce the contract requirement that Service Providers record all revenues derived from the AAA Program in the general ledger.

CYNTHIA D. BANKS
Director

# COMMUNITY AND SENIOR SERVICES OF LOS ANGELES COUNTY

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*"To Enrich Lives Through Effective And Caring Service"*

BOARD OF SUPERVISORS

GLORIA MOLINA
YVONNE B. BURKE
ZEV YAROSLAVSKY
DON KNABE
MICHAEL D. ANTONOVICH

May 9, 2006

To: J. Tyler McCauley
Auditor-Controller

From: Cynthia D. Banks
Director

Subject: **RESPONSE TO MANAGEMENT LETTERS ON FISCAL MONITORING OF COMMUNITY AND SENIOR SERVICES – AREA AGENCY ON AGING SERVICE PROVIDERS FOR PROGRAM YEAR 2004-05**

The following is Community and Senior Services' (CSS) response to management letters prepared by Simpson & Simpson, CPAs, and M. R. Grant, CPA, based on their fiscal monitoring reviews of our Area Agency on Aging (AAA) Service Providers for Program Year (PY) 2004-05.

## 1) Simpson & Simpson's management letter included the following:

Condition #1 – Inappropriate Cost Allocations Charged by the Service Providers

During our monitoring visits, we noticed that certain service providers inappropriately charged indirect or shared costs to the AAA programs or did not maintain the required documentation for the charged costs. Some of the service providers did not have an adequate understanding of the cost principles established by the Office of Management and Budget that pertain to the administration and accounting of federal awards.

We recommend the following:

1. CSS should work closely with the service providers, and provide technical assistance if necessary, to:

   - Ascertain that they have an adequate understanding of the cost principles established by the Office of Management and Budget that pertain to the administration and accounting of federal awards.

   - Ensure the service providers are applying the cost principles, established by the Office of Management and Budget, in their accounting of grant expenditures.

2. CSS should review the cost allocation plans as soon as they are submitted and provide feedback and technical assistance if necessary.

CSS Response

Our Contract Compliance Division has designed a series of training sessions for all CSS service providers, including our AAA service providers, to ensure that they receive training on basic accounting principles as well as grants management requirements relating to cost allocation. Service providers were surveyed and asked to provide us with their self-assessment of their level of knowledge. Five courses have been designed from beginning-level accounting to the preparation of a cost-allocation plan. Training began this month and will continue through June 2006.

Our intent is to ensure that all of the service providers that had inadequate, or lack of, cost-allocation plans will be provided with the training required to submit their cost-allocation plans in PY 2006-07. Service providers will be required to provide CSS with a cost-allocation plan in accordance with the Office of Management and Budget (OMB) Circulars as part of the 2006-07 contract process, as required by their contracts.

In addition, CSS will ensure that each service provider's application of cost principles in accordance with OMB Circulars is monitored annually.

Condition #2 – Service Provider's Lack of Understanding of the Matching Requirements

Under the AAA program's matching requirement, the service providers are required to use their own funds or in-kind donations to fund a percentage of the program expenses. For example, if the contract requires a 15% matching from the service provider, then 15% of the program's total expenses must be paid for by the service provider's own funds (instead of by the contract funds from CSS) or from in-kind donations such as donated services.

During our monitoring visits, we noticed that certain service providers appear to not have an adequate understanding of the matching requirements and the documents the service provider needs to maintain to support the matching costs.

We recommend that CSS provide technical assistance to the service providers to ensure the service providers understand and comply with the matching requirements.

CSS Response

Our Contract Management Division will ensure that the contractors are aware of the matching requirements and the documentation necessary to support them. This area will continue to be monitored by CSS or its contract monitoring firms.

**2) M. R. Grant's management letter included the following:**

Condition #1 – No formal monitoring of subcontractor's work

During our monitoring visits, we noticed that certain Service Providers had no formal monitoring of their subcontractor's work.

We recommend that CSS enforce the contract requirement that Service Providers formally monitor their subcontractors' work.

CSS Response

Our Contract Management Division will ensure that each contractor is aware that if it subcontracts services it must monitor its subcontractors. This area will continue to be monitored by CSS or its contract monitoring firms.

Condition #2 – Revenue derived from AAA Program was not recorded in the general ledger

During our monitoring visits, we noticed that a Service Provider did not record revenue derived from AAA in the general ledger.

We recommend that CSS enforce the contract requirement that Service Providers record all revenues derived from the AAA Program in the general ledger.

CSS Response

Our Contract Management Division will ensure that the contractors are aware that they are required to maintain their accounting records in accordance with Generally Accepted Accounting Principles (GAAP) and that revenue should be properly recorded in their general ledgers. This area will continue to be monitored by CSS or its contract monitoring firms.

We would like to thank your staff for their work on this project. Should you have questions regarding our response, please contact Otto Solórzano, Assistant Director, at (213) 738-2620 or Jackie Lynn Sakane at (213) 739-7321.

CDB:OS:JLS

c: Otto Solórzano, CSS
Jackie Lynn Sakane, CSS
Leo Zaslov, CSS