



COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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OSCAR VALDEZ
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April 26, 2022

TO: Each Supervisor

FROM: Arlene Barrera, Auditor-Controller

SUBJECT: VAN NESS RECOVERY HOUSE – A DEPARTMENT OF PUBLIC HEALTH
SUBSTANCE ABUSE PREVENTION AND CONTROL DRUG MEDI-CAL
AND RECOVERY BRIDGE HOUSING PROGRAM PROVIDER - FISCAL
COMPLIANCE REVIEW

With the support and active participation of the Department of Public Health’s Substance Abuse Prevention and Control Division (SAPC) and Van Ness Recovery House (Van Ness or Agency), we completed a fiscal compliance review of Van Ness. SAPC contracts with Van Ness to provide Drug Medi-Cal (DMC) and Recovery Bridge Housing (RBH) Program services. The purpose of our review was to determine whether the Agency appropriately accounted for and spent DMC and RBH Program funds to provide the services outlined in their County contracts.

Our review noted significant and repeat areas of non-compliance which impact Van Ness’ ability to ensure DMC and RBH Program funds are appropriately used and safeguarded. For example, Van Ness did not maintain adequate separation of duties over disbursements and did not provide adequate documentation to support ten (77%) of the 13 non-payroll expenditures reviewed. Given the lack of adequate separation of duties over disbursements and high rate of unsupported expenditures, we have concerns with the Agency’s ability to adequately support their DMC and RBH Program expenditures. In addition, Van Ness did not identify and allocate their shared payroll and non-payroll expenditures to all benefiting programs as required.

If Van Ness does not correct the non-compliance issues noted in this report, SAPC should consider placing Van Ness in the County’s Contractor Alert Reporting Database (CARD). For details of our review, please see Attachment I. Van Ness’ response indicates agreement with our findings and recommendations and is included in Attachment II.

We thank Van Ness management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Terri Kasman at tkasman@auditor.lacounty.gov.

AB:OV:TK:JH:meb

Attachments

- c: Fesia A. Davenport, Chief Executive Officer
Celia Zavala, Executive Officer, Board of Supervisors
Barbara Ferrer, Ph.D., M.P.H., M.Ed., Director, Department of Public Health

RECOMMENDED FOR
CARD

NUMBER OF
RECOMMENDATIONS

PRIORITY 1
6

PRIORITY 2
1

PRIORITY 3
0

FAST FACTS
SAPC paid Van Ness approximately \$1.63 million from January 2020 through March 2021.
At the time of our review, Van Ness had offices in the Third Supervisorial District, and provided services to residents of all Supervisorial Districts.

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Oscar Valdez
CHIEF DEPUTY AUDITOR-CONTROLLER

Terri Kasman
DIVISION CHIEF

COUNTYWIDE CONTRACT MONITORING DIVISION

Report #X21174

DEPARTMENT OF PUBLIC HEALTH SUBSTANCE ABUSE PREVENTION AND CONTROL DIVISION VAN NESS RECOVERY HOUSE FISCAL COMPLIANCE REVIEW

BACKGROUND AND SCOPE

We conducted a fiscal compliance review of Van Ness Recovery House (Van Ness or Agency) at the request of the Department of Public Health's Substance Abuse Prevention and Control Division (SAPC) and in accordance with our Fiscal Year (FY) 2020-21 monitoring plan. SAPC contracts with Van Ness to provide Drug Medi-Cal (DMC) and Recovery Bridge Housing (RBH) Program services. DMC Program services include the planning and provision of counseling and other treatment to Medi-Cal beneficiaries who are diagnosed as having a substance-related disorder. RBH Program services provide a safe interim living environment for homeless patients receiving substance abuse disorder treatment.

We reviewed Van Ness' financial records from January 2020 through March 2021 and selected a sample of transactions to determine whether the Agency appropriately accounted for and spent SAPC Program funds to provide the services outlined in their County contracts. We also evaluated the Agency's financial records, internal controls over cash, revenue, disbursements, payroll and personnel, and compliance with their County contracts and other applicable guidelines.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

| | ISSUE | RECOMMENDATION |
|---|---|--|
| 1 | <p>County's Contractor Alert Reporting Database (CARD) - SAPC should consider placing Van Ness in CARD if the Agency does not immediately resolve the significant issues identified in our report. For example, Van Ness did not:</p> <ul style="list-style-type: none"> Maintain adequate separation of duties over disbursements to ensure that DMC and RBH Program funds were properly accounted for and safeguarded as required (Issue 2). Provide adequate supporting documentation for ten (77%) of the 13 non-payroll expenditures reviewed (Issue 3). Appropriately identify and allocate their shared payroll and non-payroll expenditures to all benefiting programs/funding sources as required (issue 4). <p>We noted similar observations (i.e., Issues 2 and 4) in our monitoring report dated April 6, 2021. According to the CARD Manual, a contractor that has not corrected significant documented instances of noncompliance should be placed in CARD.</p> | <p>Priority 1 - SAPC management consider placing Van Ness in CARD if the Agency does not immediately correct their significant noncompliance issues.</p> <p>Department Response: Agree Target Implementation Date: December 31, 2022</p> |

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

| TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION | | |
|--|---|--|
| | ISSUE | RECOMMENDATION |
| | <p>Impact: Other departments seeking to award future contracts will not be aware of the significant issues.</p> | |
| 2 | <p>Inadequate Separation of Duties Over Disbursements - Van Ness did not maintain adequate separation of duties over disbursements to ensure DMC and RBH Program funds were properly accounted for and safeguarded as required. Specifically, the Agency's Executive Director (ED) is solely responsible for authorizing purchases, approving invoices for payment, and signing all checks, including checks payable to herself.</p> <p>Section B.2.2 of the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) requires all disbursements, excluding petty cash purchases, be approved by person's independent of check preparation. In addition, Section B.2.1 of the A-C Handbook states that in instances where the payee is also a signer on the check, the disbursement should be reviewed and approved by a higher-level employee or Board member who shall also sign the check, and recommends a second signature on checks over \$500.</p> <p>We noted a similar issue in our monitoring report dated April 6, 2021.</p> <p>Impact: Lack of adequate separation of duties over disbursements increases the risk of fraud and/or misappropriation of assets.</p> | <p>Priority 1 - Van Ness management:</p> <p>a) Ensure adequate separation of duties are maintained over disbursement functions.</p> <p>b) Require a second signature on all checks made payable to the check signer who is independent from the transaction.</p> <p>c) Require a second signature on all checks over \$500, or provide SAPC with documentation in support of a higher dollar threshold.</p> <p>Agency's Response: Agree Implementation Date: April 15, 2022</p> |
| 3 | <p>Inadequately Supported Expenditures - Van Ness did not provide adequate supporting documentation for ten (77%) of the 13 non-payroll expenditures reviewed. Specifically, the Agency did not provide adequate documentation, such as invoices and receipts, to support \$22,690 (\$2,002 during FY 2019-20 and \$20,688 during FY 2020-21) in expenditures as required by Section A.3.3 of the A-C Handbook.</p> <p>Given the separation of duties issue noted above in Issue 2, we have concerns with the Agency's ability to adequately support their DMC and RBH Program expenditures.</p> <p>Impact: When documentation is not maintained to support expenditures, there is an increased risk that inappropriate expenditures will be charged to the DMC and RBH Programs, which may result in disallowed or questioned costs from the State.</p> | <p>Priority 1 - Van Ness management reduce their FY 2019-20 and FY 2020-21 Cost Reports for the unsupported amounts, and repay SAPC for any excess revenue received, or provide adequate documentation to support the expenditures.</p> <p>Agency's Response: Agree Target Implementation Date: May 1, 2022</p> |

| TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION | | |
|---|--|--|
| | ISSUE | RECOMMENDATION |
| 4 | <p>Did Not Allocate Shared Expenditures - Van Ness did not follow their Cost Allocation Plan and as a result, the Agency did not identify and allocate their shared payroll and non-payroll expenditures to all benefiting programs/funding sources as required by Section C.2.0 of the A-C Handbook.</p> <p>We noted a similar issue in our monitoring report dated April 6, 2021.</p> <p>Impact: Increased risk of overbilling the DMC and RBH Programs when shared costs are not appropriately allocated to benefiting programs/funding sources, which may result in questioned or disallowed costs from the State.</p> | <p>Priority 1 - Van Ness management identify and allocate all FY 2019-20 and 2020-21 shared expenditures, ensure shared expenditures reported on their cost reports are appropriately allocated to all benefiting programs/funding sources, and repay SAPC for any excess revenues received.</p> <p>Agency's Response: Agree Target Implementation Date: June 30, 2022</p> |
| 5 | <p>Unpaid Wages - We reviewed the timecards, payroll registers, and personnel action forms for a sample of five employees and noted that Van Ness did not appropriately pay one salaried employee their approved rate. Specifically, the employee's March 2021 salary was calculated based on an annual salary of \$80,000, instead of the approved salary of \$85,000 per their January 2017 personnel action form. Van Ness should determine and resolve the amount of unpaid wages.</p> <p>Impact: Unpaid wages increase the risk of labor law violations.</p> | <p>Priority 1 - Van Ness management:</p> <p>a) Determine and resolve the amount of unpaid wages.</p> <p>b) Ensure employees are paid all earned wages as required.</p> <p>Agency's Response: Agree Implementation Date: April 15, 2022</p> |
| 6 | <p>Governance - Van Ness did not ensure their Board of Directors' (Board) meetings were conducted at least quarterly as required by their County contracts. Specifically, the Agency's Board only met two times during our review period of January 2020 through March 2021.</p> <p>Given the lack of separation of duties over disbursements (Issue 2) and adequate documentation to support expenditures (Issue 3), we have concerns with the limited oversight provided by the existing Board.</p> <p>Impact: Limited Board oversight increases the risk of inadequate fiscal management and insufficient internal controls needed to adequately safeguard DMC and RBH Program funds.</p> | <p>Priority 1 - Van Ness management ensure their Board meetings are held at least four times each calendar or fiscal year, as required.</p> <p>Agency's Response: Agree Implementation Date: September 30, 2021</p> |

| TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION | | |
|--|---|--|
| | ISSUE | RECOMMENDATION |
| 7 | <p>Did Not Maintain Sufficient Cash on Hand - Van Ness did not maintain sufficient cash on hand to operate the DMC Program without reimbursement for at least 60 days as required by their County contract. Although Van Ness' unaudited financial statements for FY 2019-20 and July 2020 through March 2021 did not indicate any financial viability issues, the Agency must ensure they have sufficient working capital to meet their financial obligations in a timely manner.</p> <p>We noted a similar issue in our monitoring report dated April 6, 2021.</p> <p>Impact: The lack of sufficient cash reserves increases the Agency's risk of being unable to meet its financial obligations and disrupting program services.</p> | <p>Priority 2 - Van Ness management build sufficient cash reserves to operate the DMC Program without reimbursement for at least 60 days as required by their County contract.</p> <p>Agency's Response: Agree Target Implementation Date: December 31, 2022</p> |

For more information on our auditing process, including recommendation priority rankings and the resolution process, visit <http://auditor.lacounty.gov/contract-monitoring-audit-process-information/>.

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.



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(323) 463-4266 • Fax (323) 962-6721

March 30, 2022

Arlene Barrera, Auditor Controller
County of Los Angeles
Department of Auditor – Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, CA 90012

Ms. Barrera,

Please accept the attached response from Van Ness Recovery House regarding our Fiscal Compliance Review. I would like to share my gratitude for the efforts of the two auditors – virtual audits are not easy for me and they worked hard to make it doable.

Should you have further questions please do not hesitate to reach out to me -

Sincerely,

A handwritten signature in black ink, appearing to read "Kathy Watt".

Kathy Watt
Executive Director
Van Ness Recovery House
323-463-4266
wattvnrh@aol.com

**DEPARTMENT OF PUBLIC HEALTH
SUBSTANCE ABUSE PREVENTION AND CONTROL DIVISION
VAN NESS RECOVERY HOUSE
AGENCY ACTION PLAN/ RESPONSE**

| ISSUE 2: Inadequate Separation of Duties Over Disbursements | |
|--|---|
| A/C Recommendation | <p>Van Ness management:</p> <p>a) Ensure adequate separation of duties are maintained over disbursement functions.</p> <p>b) Require a second signature on all checks made payable to the check signer who is independent from the transaction.</p> <p>c) Require a second signature on all checks over \$500, or provide SAPC with documentation in support of a higher dollar threshold.</p> |
| Priority | PRIORITY 1 |
| Agree/Disagree | Agree |
| Agency Action Plan ¹ | We will make sure our separation of duties is spread across six staff members and the Board Treasurer will be the second signer on required checks. In addition, the Board Treasurer will also review invoices and pay bills each month – the accountant will ensure that invoices are coded properly to the correct “Cost Centers.” |
| Target Implementation Date | April 15, 2022 |
| Additional Information (optional) ² | “Separation of Duties” takes effort but we are committed to the practice understanding that separation starts with receiving mail and goes from there to complete circle of bills paid being mailed out for payment. COVID and the “protocols” made it difficult during shut down for accountant and Board Treasurer to come on site – with everything opening up this is no longer issue. We have reached out to a couple of other small agencies to ask how their systems work in regard to separation of duties. |

| ISSUE 3: Inadequately Supported Expenditures | |
|---|--|
| A/C Recommendation | Van Ness management reduce their FY 2019-20 and FY 2020-21 Cost Reports for the unsupported amounts, and repay SAPC for any excess revenue received, or provide adequate documentation to support the expenditures. |
| Priority | PRIORITY 1 |
| Agree/Disagree | Agree |
| Agency Action Plan ¹ | We will submit supporting documentation for the expenditures that were chosen for review to at least reach 90% - we have a new system in place that should help this to no longer be a finding in our future audits. |
| Target Implementation Date | May 1, 2022 |
| Additional Information (optional) ² | We have reached out to other agencies that are small to ask about their systems since they have had no findings in this area. |

¹ In this section the Agency should only describe the efforts they plan to take, or any steps already taken to implement the recommendation. Any other information should be included in the Additional Information section below.

² In this section the Agency can provide any background or clarifying information they believe is necessary.

| | |
|--|--|
| Additional Information (optional) ² | |
|--|--|

| ISSUE 4: Did Not Allocate Shared Expenditures | |
|--|--|
| A/C Recommendation | Van Ness management identify and allocate all FY 2019-20 and 2020-21 shared expenditures, ensure shared expenditures reported on their cost reports are appropriately allocated to all benefiting programs/funding sources, and repay SAPC for any excess revenues received. |
| Priority | PRIORITY 1 |
| Agree/Disagree | Agree |
| Agency Action Plan ¹ | We will correct the shared expenses and ensure that our "financials" reflect shared costs in the correct cost centers – we do not feel that there have been any excess revenues – however should our corrections reveal such we will make plans with SAPC for repayment – it is our feeling that 2019-2020 has been corrected with SAPC. |
| Target Implementation Date | June 30, 2022 |
| Additional Information (optional) ² | |

| ISSUE 5: Unpaid Wages | |
|--|--|
| A/C Recommendation | Van Ness management: a) Determine and resolve the amount of unpaid wages. b) Ensure employees are paid all earned wages as required. |
| Priority | PRIORITY 1 |
| Agree/Disagree | Agree |
| Agency Action Plan ¹ | We will work with SAPC to resolve the amount of unpaid wages. |
| Target Implementation Date | April 15, 2022 |
| Additional Information (optional) ² | |

¹ In this section the Agency should only describe the efforts they plan to take, or any steps already taken to implement the recommendation. Any other information should be included in the Additional Information section below.

² In this section the Agency can provide any background or clarifying information they believe is necessary.

| ISSUE 6: Governance | |
|--|---|
| A/C Recommendation | Van Ness management ensure their Board meetings are held at least four times each calendar or fiscal year, as required. |
| Priority | |
| Agree/Disagree | Agree |
| Agency Action Plan ¹ | The Board of Directors prior to COVID met at a minimum quarterly – with COVID it became difficult – since September 2021 the Board of Directors has been meeting monthly and plans to continue this schedule. |
| Implementation Date | September 30, 2021 |
| Additional Information (optional) ² | The Board of Directors has supporting minutes for the Board Meetings. |

| ISSUE 7: Did Not Maintain Sufficient Cash on Hand | |
|--|---|
| A/C Recommendation | Van Ness management build sufficient cash reserves to operate the DMC Program without reimbursement for at least 60 days as required by their County contract. |
| Priority | PRIORITY 2 |
| Agree/Disagree | Agree |
| Agency Action Plan ¹ | Van Ness Recovery House will be celebrating 50 years of providing “Residential Treatment Services” in May of 2023 and we are using the 18 months leading up to celebration as opportunity for fundraising to build prudent reserve of \$200,000 and also an additional \$200,000 to expand programming. |
| Target Implementation Date | December 31, 2022 |
| Additional Information (optional) ² | While not having had the “Prudent Reserve” Van Ness Recovery House has been at 100% capacity for the past three years – we remained open and serving residents throughout COVID. |

¹ In this section the Agency should only describe the efforts they plan to take, or any steps already taken to implement the recommendation. Any other information should be included in the Additional Information section below.

² In this section the Agency can provide any background or clarifying information they believe is necessary.