



COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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OSCAR VALDEZ
INTERIM AUDITOR-CONTROLLER

April 26, 2023

TO: Each Supervisor

FROM: Oscar Valdez, Interim Auditor-Controller

SUBJECT: **BEHAVIORAL HEALTH SERVICES, INC. – A DEPARTMENT OF PUBLIC HEALTH SUBSTANCE ABUSE PREVENTION AND CONTROL SERVICE 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 Behavioral Health Services, Inc. (BHS or Agency), we completed a fiscal compliance review of BHS. SAPC contracts with BHS to provide Drug Medi-Cal, Substance Use Disorder, Recovery Bridge Housing (RBH), Adults-At-Risk (AAR), Client Engagement and Navigation Services, Adolescent Prevention Services (APS), and Alcohol and Other Drug Prevention Program services.

Our review noted significant fiscal and administrative non-compliance issues that could materially impact the Agency's ability to ensure SAPC funds are appropriately used as required by their County contracts. For example, BHS:

- Did not provide adequate documentation to support the amounts billed during Fiscal Year 2019-20 for their APS Program contract, totaling \$122,028.
- Did not maintain a separate cost center to track their AAR Program expenditures.
- Charged the RBH Program \$182,000 in inadequately supported related party rent expenditures.

In our prior monitoring report issued on October 19, 2020, we recommended SAPC consider placing BHS in the County's Contractor Alert Reporting Database (CARD) for the significant non-compliance issues identified in our review. After our review, SAPC indicated the Agency implemented corrective action to avoid CARD placement. However, this review also identifies significant and repeated areas of non-compliance, and we are again recommending that SAPC consider placing BHS in CARD if the Agency does not immediately implement corrective action. We also recommended CARD placement in our recent monitoring report of BHS' Department of Children and Family Services contract dated March 9, 2023.

For details of our review, please see Attachment I. The Agency's response (included in Attachment II) indicates agreement with our findings and recommendations.

RECOMMENDED FOR
CARD

NUMBER OF
RECOMMENDATIONS

PRIORITY 1

5

PRIORITY 2

3

PRIORITY 3

0

FAST FACTS

SAPC paid the Agency approximately \$48 million from July 2019 through January 2021.

At the time of our review, BHS had offices in the First, Second, Third, and Fourth Supervisorial Districts and provided services to residents of all Supervisorial Districts.

Although not included in this review, BHS also contracts with the Departments of Children and Family Services, Health Services, and Mental Health.

Each Supervisor
April 26, 2023
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We thank BHS and SAPC 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.

OV:RGC:TK:JH

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

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Attachment I
Page 1 of 5

Robert G. Campbell
ASSISTANT AUDITOR-CONTROLLER

Terri Kasman
DIVISION CHIEF

COUNTYWIDE CONTRACT MONITORING DIVISION

Report #X21167

DEPARTMENT OF PUBLIC HEALTH SUBSTANCE ABUSE PREVENTION AND CONTROL DIVISION BEHAVIORAL HEALTH SERVICES, INC. FISCAL COMPLIANCE REVIEW

BACKGROUND AND SCOPE

We conducted a fiscal compliance review of Behavioral Health Services, Inc. (BHS or Agency) at the request of the Department of Public Health's Substance Abuse Prevention and Control Division (SAPC) and in accordance with our monitoring plans for Fiscal Years (FY) 2019-20 and 2020-21. SAPC contracts with BHS to provide Drug Medi-Cal (DMC), Substance Use Disorder (SUD), Recovery Bridge Housing (RBH), Adults-At-Risk (AAR), Client Engagement and Navigation Services (CENS), Adolescent Prevention Services (APS), and Alcohol and Other Drug Prevention (Prevention) 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. SUD Program services include performing assessments, case management, and testing for eligible Medi-Cal clients. RBH Program services provide a safe interim living environment for persons experiencing homelessness or unstable living conditions while receiving treatment for a substance-related disorder. AAR Program services provide counseling, education/skills learning, and crisis intervention to individuals that do not have a medical necessity but would benefit from intervention due to high-risk behavior. CENS Program services aim to ensure clients successfully access substance use disorder services through a referral system. APS and Prevention Program services aim to reduce alcohol and drug abuse in Los Angeles County through community engagement.

We reviewed BHS' financial records from July 2019 through January 2021 and selected a sample of transactions to determine whether the Agency appropriately accounted for and spent SAPC funds to provide the services outlined in their County contracts. We also evaluated the Agency's Cost Allocation Plan, financial statements, governance, data encryption standards, 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	County's Contractor Alert Reporting Database (CARD) – SAPC should consider placing BHS in CARD if the Agency does not immediately resolve the significant and repeated non-compliance issues noted in our report. For example, BHS: • Did not provide documentation (i.e., accounting records) to support the amounts billed to the APS Program, totaling \$122,028 (Issue 2). • Did not maintain a separate cost center to track their AAR Program expenditures (Issue 3). • Charged the RBH Program \$182,000 in inadequately supported related party rent expenditures (Issue 4). According to the CARD Manual, a contractor that has not corrected significant documented instances of non-compliance	Priority 1 – SAPC management consider placing BHS in CARD if the Agency does not immediately correct their significant and repeated non-compliance issues. Department's Response: Agree Target Implementation Date: To Be Determined (TBD)

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
	should be placed in CARD. It should be noted that we also recommended CARD placement in our recent monitoring report of BHS' Department of Children and Family Services (DCFS) contract dated March 9, 2023. Impact: Significant unresolved non-compliance issues could go undetected by other County departments seeking to award future contracts to this Agency if they are not placed in CARD.	
2	Billed Amounts Not Supported by Accounting Records – SAPC reimburses BHS for APS Program expenditures on a cost-reimbursement basis, and the Agency must maintain adequate accounting records (i.e., general ledger) to support the amounts billed. However, BHS could not provide a general ledger report that reconciled to the amounts billed to their APS Program, totaling \$122,028 for FY 2019-20. As mentioned below in Issue 5, BHS's independent auditors noted that the Agency did not reconcile their general ledger account balances and close their books until several months after year-end for the periods reviewed. We noted a similar issue in our prior monitoring report dated October 19, 2020. Impact: Increased risk of inaccurate cost reports, misuse and/or misappropriation of SAPC funds, and funding sources disallowing and/or questioning costs.	Priority 1 – BHS management: a) Repay SAPC \$122,028 for FY 2019-20 inadequately supported APS Program billings, or provide adequate accounting records to support the expenditures. b) Maintain adequate accounting records to support amounts billed for all cost-reimbursement contracts. Agency's Response: Agree Implementation Date: November 30, 2021
3	Did Not Maintain Separate Cost Center – BHS did not maintain a separate cost center to track their AAR Program expenditures. As a result, BHS did not identify and allocate their shared payroll and non-payroll expenditures for the AAR Program, and we were unable to determine the AAR Program's share of the Agency's total expenditures. In addition, during our review of payroll expenditures, we noted one employee's payroll expenditures were charged 100% to the SUD Program although the employee worked on both the AAR and SUD Programs. Agency management indicated they had not yet established a separate cost center for the AAR Program since it was a new program. Impact: Cannot support AAR Program billings, increasing the risk of misuse and/or misappropriation of SAPC funds and overbilling the County, resulting in funding sources disallowing and/or questioning costs.	Priority 1 – BHS management: a) Establish a separate cost center to appropriately track AAR Program expenditures. b) Identify and allocate all FY 2019-20 AAR Program expenditures using an equitable basis, ensure AAR expenditures are appropriately reported on their Cost Report, and repay SAPC for any excess revenues received, if applicable. Agency's Response: Agree Implementation Date: November 30, 2021

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION		
	ISSUE	RECOMMENDATION
4	Related Party Rent Expenditures – BHS charged the RBH Program \$182,000 in inadequately supported related party rent expenditures during FYs 2019-20 and 2020-21. Specifically, the Agency leased two facilities from an affiliated organization with the same Chief Executive Officer, Chief Financial Officer, and Board Member, and did not provide documentation to demonstrate the rental costs did not exceed the actual or reasonable costs of ownership as required per Section 200.465 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Impact: Increased risk of overbilling the County, misuse and/or misappropriation of SAPC funds, and funding sources disallowing and/or questioning costs.	Priority 1 – BHS management: a) Reduce their FY 2019-20 and FY 2020-21 Cost Reports by \$182,000 and repay SAPC for any excess revenues received, or provide adequate documentation to support the expenditures. b) Ensure related party expenditures are supported with adequate documentation. Agency's Response: Agree Target Implementation Date: May 31, 2023
5	Repeated Non-Compliance with Financial Audit Requirements – BHS did not ensure their annual financial statement audits and single audit reports (AFS & SAR) for the FYs ended June 30, 2018, and June 30, 2019, were completed and submitted to SAPC by the reporting deadlines as required by their County contracts and Section A.6.0 of the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook). Specifically, BHS submitted the reports to SAPC between 10 to 21 months after the deadlines for each FY. In addition, BHS' AFS & SAR for the FY ended June 30, 2020, were due by September 30, 2021, but the Agency had not yet completed and submitted the reports to SAPC as of February 2023. We noted a similar issue in our recent monitoring report of BHS' DCFS contract dated March 9, 2023. That report noted additional issues related to material weaknesses identified in BHS' prior single audit reports. Specifically, the independent auditors noted "general ledger account balances were not reconciled, and the books for FYs ended June 30, 2017, and June 30, 2018, were not closed for several months after year-end." We noted the issues had not yet been corrected in our review of BHS' single audit report for FY ended June 30, 2019. However, we do not repeat our recommendations in this report since the issues will be resolved if the Agency implements corrective action (as previously recommended). Impact: Increased risk of not communicating significant financial viability and internal control issues timely, which can impact the County's ability to make informed decisions about their contracts with the Agency.	Priority 1 – BHS management: a) Work with the Agency's independent auditors to immediately complete any overdue financial statement and single audits, and submit the audit reports to SAPC. b) Ensure future financial audits are conducted annually as required. c) Submit future audit reports and other financial information to SAPC within the required timeframes. Agency's Response: Agree Target Implementation Date: August 31, 2023

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
6	Cost Allocation Issues – BHS used multiple methodologies to allocate shared expenditures, and the Agency did not always provide adequate documentation to support the allocation percentages used as required by Section C.2.0 of the A-C Handbook. Specifically, BHS did not provide adequate documentation to support the percentages used to allocate four shared payroll expenditures we reviewed for June 2020 and January 2021, totaling \$8,208, and eleven shared non-payroll expenditures we reviewed for September 2019 through January 2021, totaling \$13,359. We noted a similar issue in our prior monitoring report dated October 19, 2020. Impact: Increased risk of improperly allocated shared costs, which may result in overbilling the County and funding sources disallowing and/or questioning costs.	Priority 2 – BHS management: a) Reallocate the \$21,567 in shared expenditures using a supported cost allocation methodology, or provide adequate documentation to support the allocation percentages used. b) Reduce FYs 2019-20 and 2020-21 Cost Reports for any overallocated amounts, and repay SAPC for any excess revenues received, if applicable. c) Ensure all shared expenditures are appropriately allocated using a supported and allowable methodology. Agency's Response: Agree Implementation Dates: 6(a) and 6(c): November 30, 2021 6(b): TBD
7	Unallowable Expenditures – BHS charged \$18,320 in unallowable expenditures during FY 2019-20. Specifically, the Agency charged: • \$13,462 for various expenditures, such as depreciation, program supplies, and equipment leases, charged to the SUD and RBH Programs that were for the Agency's non-SAPC programs. • \$4,858 for computers charged to the RBH Program that were neither assigned to nor used by RBH Program staff. Impact: Increased risk of overbilling the County, misuse and/or misappropriation of SAPC funds, and funding sources disallowing and/or questioning costs.	Priority 2 – BHS management: a) Reduce their FY 2019-20 Cost Reports by \$18,320 for the unallowable expenditures and repay SAPC for any excess revenues received. b) Ensure only allowable expenditures are charged to the SAPC Programs. Agency's Response: Agree Implementation Date: June 30, 2022
8	Inadequately Supported Non-Payroll Expenditures – BHS did not provide adequate supporting documentation for \$17,970 in various non-payroll expenditures charged to the DMC, Prevention, SUD, and CENS Programs during FYs 2019-20 and 2020-21. Specifically, the Agency did not provide adequate documentation, such as invoices, canceled checks and/or contracts/agreements, to support the expenditures.	Priority 2 – BHS management: a) Reduce their FY 2019-20 and FY 2020-21 Cost Reports by \$17,970 and repay SAPC for any excess revenues received, or provide adequate

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
	We noted a similar issue in our prior monitoring report dated October 19, 2020. Impact: Increased risk of overbilling the County, misuse and/or misappropriation of SAPC funds, and funding sources disallowing and/or questioning costs.	documentation to support the expenditures. b) Ensure all expenditures charged to the SAPC Programs are adequately supported. Agency's Response: Agree Target Implementation Date: June 30, 2023

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.



April 4th, 2023

To: Oscar Valdez, Interim Auditor-Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, CA 90012-5427

From: Behavioral Health Services, Inc.
15519 Crenshaw Blvd.
Gardena, CA 90249

Re: Management Response Letter for SAPC A-C Audit 19-20 and 20-21

Dear Mr. Valdez,

Please find attached our Management Response Letter for the SAPC A-C Audit for fiscal years 19-20 and 20-21. We wish to thank you and your team for your assistance during this audit process. Please do not hesitate to contact us if you have any questions or concerns mballue@bhs-inc.org or 310-679-9126 ext. 1244.

Sincerely,

Shirley Summers

President/Chief Executive Officer

Cc

Todd Turley, CFO

A TRADITION OF CARING



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DEPARTMENT OF PUBLIC HEALTH SUBSTANCE ABUSE PREVENTION AND CONTROL DIVISION BEHAVIORAL HEALTH SERVICES, INC. AGENCY ACTION PLAN/ RESPONSE	
ISSUE 2: Billed Amounts Not Supported by Accounting Records	
A/C Recommendation	BHS management: a) Repay SAPC \$122,028 for FY 2019-20 inadequately supported APS Program billings, or provide adequate accounting records to support the expenditures. b) Maintain adequate accounting records to support amounts billed for all cost-reimbursement contracts.
Priority	PRIORITY 1
Agree/Disagree	Agree
Agency Action Plan ¹	a) We have prepared cost reports in accordance with accounting standards to support the expenditures. b) We are maintaining adequate accounting records to support amounts billed for all cost-reimbursement contracts.
Target Implementation Date	11/30/21
Additional Information (optional) ²	The correction was made after the A + C audit team informed us of the issue during the audit. BHS corrected the ledger during the audit and final corrections were made prior to submitting cost reports to SAPC.
ISSUE 3: Did Not Maintain Separate Cost Center	
A/C Recommendation	BHS management: a) Establish a separate cost center to appropriately track AAR Program expenditures. b) Identify and allocate all FY 2019-20 AAR Program expenditures using an equitable basis, ensure AAR expenditures are appropriately reported on their Cost Report, and repay SAPC for any excess revenues received, if applicable.
Priority	PRIORITY 1
Agree/Disagree	Agree
Agency Action Plan ¹	a) We have established a separate cost center for the AAR program. b) We have identified and allocated all FY 2019-20 AAR Program expenditures using an equitable basis and ensured those expenditures were appropriately allocated on the Cost Report.
Target Implementation Date	a) A separate cost center (#176) for the AAR program was established in November of 2021. b) 11/30/21
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 4: Related Party Rent Expenditures	
A/C Recommendation	BHS management: a) Reduce their FY 2019-20 and FY 2020-21 Cost Reports by \$182,000 and repay SAPC for any excess revenues received, or provide adequate documentation to support the expenditures. b) Ensure related party expenditures are supported with adequate documentation.
Priority	PRIORITY 1
Agree/Disagree	Agree
Agency Action Plan ¹	a) We will provide adequate documentation to support the expenditures. b) We will ensure going forward that related party expenditures are supported going forward.
Target Implementation Date	5/31/23 (or when SAPC is ready to receive)
Additional Information (optional) ²	

ISSUE 5: Repeated Non-Compliance with Financial Audit Requirements	
A/C Recommendation	BHS management: a) Work with the Agency's independent auditors to immediately complete any overdue financial statement and single audits, and submit the audit reports to SAPC. b) Ensure future financial audits are conducted annually as required. c) Submit future audit reports and other financial information to SAPC within the required timeframes.
Priority	PRIORITY 1
Agree/Disagree	Agree
Agency Action Plan ¹	a) We have engaged a new audit firm who have completed the 19-20 audit expect the 20-21 audit to be done by the end of May and the 21-22 audit to be done by August 31st allowing the 22-23 audit to run on time. Our Policy and Procedure regarding audits was modified to increase accountability to the Board of Directors. b) We have put in place the process described in a) above which will ensure future audits are conducted annually as required c) Future audits and financial information will be submitted to SAPC within the required time frame.

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 5: Repeated Non-Compliance with Financial Audit Requirements	
Target Implementation Date	The process described above was finalized on 10/26/22 and the 21-22 audit will be complete by 8/31/23.
Additional Information (optional) ²	The Policy and Procedure for independent audits was updated in October of 2022 to increase the accountability of the independent audit firm to the Board of Directors Audit Subcommittee.

ISSUE 6: Cost Allocation Issues	
A/C Recommendation	BHS management: a) Reallocate the \$21,567 in shared expenditures using a supported cost allocation methodology, or provide adequate documentation to support the allocation percentages used. b) Reduce FYs 2019-20 and 2020-21 Cost Reports for any overallocated amounts, and repay SAPC for any excess revenues received, if applicable. c) Ensure all shared expenditures are appropriately allocated using a supported and allowable methodology.
Priority	PRIORITY 2
Agree/Disagree	Agree
Agency Action Plan ¹	a) We have used a supported allocation methodology to re-allocate expenditures to SAPC programs and provide adequate documentation to support those percentages. b) Reduce FYs 2019-20 and 2020-21 Cost Reports for any overallocated amounts and repay SAPC for any excess revenues received, if applicable. c) We have ensured all shared expenditures are appropriately allocated using a supported and allowable methodology.
Target Implementation Date	a) 11/30/21 b) within 60 days of receiving cost report forms from SAPC. c) 11/30/21
Additional Information (optional) ²	DMC Cost Reports are pending BHS reception of the Cost Report Template from SAPC.

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 7: Unallowable Expenditures	
A/C Recommendation	BHS management: a) Reduce their FY 2019-20 Cost Reports by \$18,320 for the unallowable expenditures and repay SAPC for any excess revenues received. b) Ensure only allowable expenditures are charged to the SAPC Programs.
Priority	PRIORITY 2
Agree/Disagree	Agree
Agency Action Plan ¹	We will a) We have reallocated expenses in the cost reports to remove the questioned expenses. b) We have ensured that only allowable expenditures are charged to the SAPC Programs
Target Implementation Date	6/30/22
Additional Information (optional) ²	

ISSUE 8: Inadequately Supported Non-Payroll Expenditures	
A/C Recommendation	BHS management: a) Reduce their FY 2019-20 and FY 2020-21 Cost Reports by \$17,970 and repay SAPC for any excess revenues received, or provide adequate documentation to support the expenditures. b) Ensure all expenditures charged to the SAPC Programs are adequately supported.
Priority	PRIORITY 2
Agree/Disagree	Agree
Agency Action Plan ¹	We will: a) Re-allocate expenses for the 19-20 and 20-21 Cost Reports and provide adequate documentation to support the expenditures. b) Ensure going forward that all expenditures charged to SAPC programs are adequately supported.
Target Implementation Date	06/30/23
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.