



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

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OSCAR VALDEZ
AUDITOR-CONTROLLER

CONNIE YEE
CHIEF DEPUTY AUDITOR-CONTROLLER

May 28, 2025

TO: Each Supervisor

FROM: Oscar Valdez
Auditor-Controller

Robert G. Campbell
Assistant Auditor-Controller / Chief Audit Executive

SUBJECT: **FRED BROWN'S RECOVERY 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 (SAPC) Bureau and Fred Brown's Recovery Services, Inc. (Fred Brown or Agency), we completed a fiscal compliance review of Fred Brown. SAPC contracts with Fred Brown 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 SAPC funds to provide the services outlined in their County contracts.

We noted opportunities for Fred Brown to improve and strengthen their controls over financial reporting of their DMC and RBH Program expenditures. For example, the Agency:

- Did not maintain adequate documentation for all shared payroll expenditures charged to the DMC and RBH Programs during Fiscal Year (FY) 2022-23.
- Charged the DMC Program \$32,211 for inadequately supported related party rent expenditures during FY 2022-23.

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

NUMBER OF
RECOMMENDATIONS

PRIORITY 1

2

PRIORITY 2

2

PRIORITY 3

1

FAST FACTS

*SAPC paid
Fred Brown
approximately
\$7.1 million
from July 2022
through
June 2023.*

*At the time of
our review,
Fred Brown
had offices in
the Second
and Fourth
Supervisory
Districts and
provided
services to
residents of all
Supervisory
Districts.*

Each Supervisor
May 28, 2025
Page 2

We thank Fred Brown and SAPC management and staff for their cooperation and assistance during our review. If you have any questions please call us, or your staff may contact Jeffrey Ho at jeho@auditor.lacounty.gov.

OV:CY:RGC:JH:meh

Attachments

c: Fesia A. Davenport, Chief Executive Officer
Edward Yen, 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 4

Robert G. Campbell
ASSISTANT AUDITOR-CONTROLLER

Jeffrey Ho
DIVISION CHIEF

COUNTYWIDE CONTRACT MONITORING DIVISION

Report #X24661

DEPARTMENT OF PUBLIC HEALTH SUBSTANCE ABUSE PREVENTION AND CONTROL BUREAU FRED BROWN'S RECOVERY SERVICES, INC. FISCAL COMPLIANCE REVIEW

BACKGROUND AND SCOPE

We conducted a fiscal compliance review of Fred Brown's Recovery Services, Inc. (Fred Brown or Agency) at the request of the Department of Public Health's Substance Abuse Prevention and Control (SAPC) Bureau and in accordance with our Fiscal Year (FY) 2023-24 monitoring plan. SAPC contracts with Fred Brown 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 persons experiencing homelessness or unstable living conditions while receiving substance abuse disorder treatment.

We reviewed Fred Brown's financial records from July 2022 through June 2023 and selected a sample of payroll transactions to determine whether the Agency appropriately accounted for and spent DMC and RBH Program funds to provide the services outlined in their County contracts. We also evaluated the Agency's Cost Allocation Plan, financial statements, internal controls, and compliance with their County contracts and other applicable guidelines.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RECOMMENDATION
1	Inadequately Supported Payroll Allocations - Fred Brown did not provide adequate documentation for all ten (100%) shared payroll expenditures reviewed that were charged to the DMC and RBH Programs for June 2023. Specifically, the Agency did not maintain documentation to support the percentages used to allocate the shared payroll costs. Fred Brown claimed that the percentages were based on actual hours worked each day by program that employees recorded on supplemental time reports. However, the Agency also claimed that the time reports were discarded after the payroll allocations were completed. In addition, the Agency indicated this practice was used for all shared payroll expenditures during our review period, and as a result, we question whether the Agency can adequately support the allocations for any of the shared payroll expenditures charged to the DMC and RBH Programs during FY 2022-23. Fred Brown's SAPC contracts require compliance with the Auditor-Controller Contract Accounting	Priority 1 - Fred Brown management: a) Reallocate all shared payroll expenditures for FY 2022-23 using a supported and allowable basis, reduce their FY 2022-23 cost reports for any overallocated and/or unsupported amounts, and repay SAPC for any excess revenues received. b) Ensure shared employees' timecards reflect the total hours worked each day by program. c) Maintain documentation supporting the allocation of shared costs. Agency's Response: Partially Disagree Implementation Date: April 30, 2025 Fred Brown partially disagreed with our finding, indicating they maintained documentation to support their payroll expenditures. However, we did not question the payroll expenditures incurred, but rather the lack of documentation to support the percentages

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
	and Administration Handbook (A-C Handbook), and according to Sections B.3.1, and C.2.0 of the A-C Handbook, the Agency must maintain documentation (e.g., timecards, time summaries) to support allocated expenditures, and employee timecards must reflect total hours worked each day by program. Impact: Increased risk of overbilling the County for shared payroll expenditures, resulting in funding sources disallowing and/or questioning expenditures.	used to allocate amounts to the DMC and RBH Programs. Fred Brown also indicated that one of the employees sampled was not allocated to either program. However, the Agency's accounting records we obtained indicate that salaries for all ten employees we sampled were in fact charged to either one or both programs. While Fred Brown partially disagreed with our finding, the Agency indicated they implemented our recommendations. In accordance with their resolution process, SAPC will work with Fred Brown to ensure our recommendations are implemented.
2	Related Party Expenditures - Fred Brown charged the DMC Program \$32,211 for inadequately supported related party rent expenditures during FY 2022-23. Specifically, the Agency leased two properties from the Chief Executive Officer and did not provide adequate documentation to demonstrate the lease costs did not exceed the actual or reasonable costs of ownership as required by Section A.3.4 of the A-C Handbook. We noted a similar issue in our prior monitoring report dated January 26, 2023. Impact: Increased risk of overbilling the County, misuse and/or misappropriation of DMC Program funds, and funding sources disallowing and/or questioning costs.	Priority 1 - Fred Brown management: a) Provide documentation to adequately support the related party expenditures for FY 2022-23, or reduce their cost reports for any inadequately supported amounts and repay SAPC for any excess revenues received. b) Ensure all related party expenditures are adequately supported with documentation. Agency's Response: Disagree Implementation Date: Not Indicated Fred Brown disagreed with our finding, indicating they complied with previous instructions from SAPC on related party transactions, and that we refused to acknowledge this correspondence. However, Fred Brown did not provide any correspondence from SAPC and ultimately could not demonstrate the related party expenditures did not exceed the actual or reasonable costs of ownership as required. In accordance with their resolution process, SAPC will work with Fred Brown to ensure our recommendations are implemented.
3	Inadequate Cost Allocation Plan - Fred Brown did not maintain an adequate Cost Allocation Plan (Plan) as required. Specifically, the Agency's Plan did not: Identify an allowable methodology for allocating indirect costs to their DMC Program. The Agency's Plan indicates indirect costs will be allocated using the percentage of direct program costs. However, according to	Priority 2 - Fred Brown management revise and fully implement their Plan to ensure compliance with County contract requirements. Agency's Response: Agree Target Implementation Date: June 30, 2025

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION		
	ISSUE	RECOMMENDATION
	Section 16 of their County contract, indirect costs shall be charged based on either a default rate of 10% of modified total direct costs or an approved indirect cost rate negotiated between the contractor and their federal cognizant agency. Identify the fiscal year and basis of accounting as required by Section C.2.5 of the A-C Handbook. Impact: Increased risk of overbilling the County for indirect costs, resulting in funding sources disallowing and/or questioning costs.	
4	Timecards Not Signed and Dated - Fred Brown did not maintain adequate internal controls over their timekeeping functions as required by Section B.3.1 of the A-C Handbook. Specifically, the Agency did not: - Require employees to sign and date their timecards to certify the accuracy of their reported hours worked. Agency management claimed that in lieu of signatures, their time and attendance system requires that employees certify their hours worked electronically on a daily basis. However, our review of the attendance system noted that eight (80%) of the ten employee timecards reviewed were processed without the daily certification of time worked. - Always require the employee's supervisor to sign and date their staff's timecards. For example, we noted that for one (10%) of the ten timecards we reviewed, the employee approved their own timecard. Impact: Increased risk of compensation errors.	Priority 2 - Fred Brown management ensure timecards are signed and dated in ink or electronically by the employees and their supervisors. Agency's Response: Partially Disagree Implementation Date: December 1, 2024 Fred Brown partially disagreed with our finding, indicating that while an employee must approve their time electronically, this process is not captured unless an approval box is checked. As noted in the Issue section, eight of the employees sampled did not document their review as required. While Fred Brown partially disagreed with our finding, the Agency indicated they implemented our recommendation. In accordance with their resolution process, SAPC will work with Fred Brown to ensure our recommendations are implemented.
5	Bank Reconciliations Not Completed Timely - Fred Brown's bank reconciliations were not completed timely. Specifically, Fred Brown's February 2024 bank reconciliations were not prepared and reviewed by management within 30 days of the bank statement date as required by Section B.1.4 of the A-C Handbook. While we confirmed the bank reconciliations were appropriately completed, the Agency must ensure they are prepared and reviewed within 30 days of	Priority 3 - Fred Brown management ensure bank reconciliations are completed within 30 days of the bank statement date. Agency's Response: Agree Target Implementation Date: December 1, 2024

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION	
ISSUE	RECOMMENDATION
the bank statement date to ensure any potential errors are detected timely. Impact: Increased risk of undetected errors, which may result in incorrect charges to the DMC and RBH Programs.	

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/>.



FRED BROWN'S RECOVERY SERVICES, INC.
A Non-Profit Organization

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Phone (310) 519-8723 Fax (310) 519-1309



May 14, 2025

Oscar Valdez, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
500 W. Temple St., Room 525
Los Angeles, CA 90012

**Re: FRED BROWN'S RECOVERY SERVICES, INC. – A DEPARTMENT OF PUBLIC
HEALTH SUBSTANCE ABUSE PREVENTION AND CONTROL SERVICE PROVIDER -
FISCAL COMPLIANCE REVIEW**

Dear Mr. Valdez:

Thank you for your assistance with Fred Brown's Recovery Services' FY 2022-23 Fiscal Compliance Review. Attached is our Agency Action Plan/Response to the Auditor-Controller's Report.

If you have any questions or require additional information, please contact Mark Malone at 310-519-8723 or mmalone@fredbrown.org.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mark Malone", is written over the printed name.

Mark Malone
Director of Administration

**DEPARTMENT OF PUBLIC HEALTH
SUBSTANCE ABUSE PREVENTION AND CONTROL BUREAU
FRED BROWN'S RECOVERY SERVICES, INC.
AGENCY ACTION PLAN/RESPONSE**

ISSUE 1: Inadequately Supported Payroll Allocations	
A/C Recommendation	Fred Brown management: a) Reallocate all shared payroll expenditures for FY 2022-23 using a supported and allowable basis, reduce their FY 2022-23 cost reports for any overallocated and/or unsupported amounts, and repay SAPC for any excess revenues received. b) Ensure shared employees' timecards reflect the total hours worked each day by program. c) Maintain documentation supporting the allocation of shared costs.
Priority	PRIORITY 1
Agree/Disagree	Partially disagree
Agency Action Plan¹	We have re-allocated shared cost to exclude them from SAPC contracts. We have implemented a new method of maintaining signed time allocation sheets, as we are unable to accommodate this inside of our payroll portal- the documents are hard copies. Cost reports for the period FY22-23 have not been settled.
Target Implementation Date	April 30, 2025
Additional Information (optional)²	Of the 10 employees sampled, 3 provide direct services to DMC and 1 was not allocated in any part to a DMC or RBH program, as this employee was management under ECM. 1 sample provided direct services under DMC and RBH. 5 of the samples were shared cost; maintenance, human resources, and IT. Additionally, the statement "Did not maintain adequate documentation for all shared payroll expenditures charged to the DMC and RBH Programs during Fiscal Year (FY) 2022-23" is misleading. We have documentation to support all payroll expenditures, allocation of shared expenses was not signed by each employee individually.

ISSUE 2: Related Party Expenditures	
A/C Recommendation	Fred Brown management: a) Provide documentation to adequately support the related party expenditures for FY 2022-23, or reduce their cost reports for any inadequately supported amounts and repay SAPC for any excess revenues received. b) Ensure all related party expenditures are adequately supported with documentation.

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 2: Related Party Expenditures	
Priority	PRIORITY 1
Agree/Disagree	Disagree
Agency Action Plan ¹	NA
Target Implementation Date	NA
Additional Information (optional) ²	We will be willing to revisit this with Auditor Controller and SAPC as we have email correspondence with Theodore Buenaventura dated May 2023, in which we have strictly adhered to SAPC requirements in allocating these related party transactions. At the time, we disagreed with the method and recommendations of SAPC, as we believed them to be incorrect and overstated. However, we maintain that we are only following the direction of SAPC in this instance. AC refused to acknowledge this correspondence. It's also relevant to note that no allocations have been made to RBH in terms of these related party expenditures. The properties in question are contracted, DMC Residential. Documentation we provided to AC was no different than documentation we provided to SAPC during discussions in May 2023. We are getting conflicting information from two county departments.

ISSUE 3: Inadequate Cost Allocation Plan	
A/C Recommendation	Fred Brown management revise and fully implement their Plan to ensure compliance with County contract requirements.
Priority	PRIORITY 2
Agree/Disagree	Agree
Agency Action Plan ¹	We will revise our cost allocation plan to include the basis of accounting and fiscal year. The plan will be updated to include the current ICR, and methodology used to determine these costs.
Target Implementation Date	June 30, 2025
Additional Information (optional) ²	

ISSUE 4: Timecards Not Signed and Dated	
A/C Recommendation	Fred Brown management ensure timecards are signed and dated in ink or electronically by the employees and their supervisors.
Priority	PRIORITY 2
Agree/Disagree	Partially disagree

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

ISSUE 4: Timecards Not Signed and Dated	
Agency Action Plan ¹	We have updated our internal control to require all employees to digitally stamp approved within the payroll portal, as well as all supervisors to approve timecards. If a timecard is not approved by a supervisor, it will be sent back.
Target Implementation Date	December 1, 2024
Additional Information (optional) ²	Of the 10 payroll samples 7 were signed by a supervisor and 4 of those were signed by 2 levels of supervisors. We demonstrated to Auditor Controller live on an employee timecard how an employee must approve every clock-in and clock-out, but it can easily be not "recorded" as approved by not additionally marking as approved by checking a box. The AC was unfamiliar with the payroll company Paychex.

ISSUE 5: Bank Reconciliations Not Completed Timely	
A/C Recommendation	Fred Brown management ensure bank reconciliations are completed within 30 days of the bank statement date.
Priority	PRIORITY 3
Agree/Disagree	Agree
Agency Action Plan ¹	We have modified our internal accounting practices so that all documentation required for monthly reconciliations is obtained within the first week following the end of the month and all reconciliations are completed within 30 days.
Target Implementation Date	December 1, 2024
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.