



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

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JOHN NAIMO
AUDITOR-CONTROLLER

April 14, 2017

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

FROM: John Naimo 
Auditor-Controller

**SUBJECT: CITY OF PASADENA PUBLIC HEALTH DEPARTMENT – A
DEPARTMENT OF PUBLIC HEALTH DIVISION OF HIV AND STD
PROGRAMS PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of City of Pasadena Public Health Department (PPHD or Agency), which included a sample of transactions from Contract Years (CY) 2014-15 and 2015-16. In addition, we reconciled CY 2013-14 Cost Reports to their financial records at the request of the Department of Public Health, Division of HIV and STD Programs (DHSP). DHSP contracts with PPHD to provide HIV counseling and testing (HCT), home-based case management, and Ryan White Comprehensive AIDS Resources Emergency Act services, such as mental health psychiatry, mental health psychotherapy, oral health care, medical care coordination, and ambulatory outpatient medical services.

The purpose of our review was to determine whether PPHD appropriately accounted for and spent DHSP funds to provide 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. In addition, for a sample of clients, we reviewed documentation to support their eligibility and that required Program services were provided.

Our review covered eight DHSP contracts with PPHD, for which DHSP paid the Agency approximately \$2.6 million on a cost-reimbursement or fee-for-service basis, depending on the type of services, during CYs 2014-15 and 2015-16. PPHD provided services to residents of all Supervisorial Districts.

Results Summary

The following information presents the most significant findings and results. See Attachment I for the details pertaining to all of the results noted and recommendations made in our review.

PPHD maintained documentation to support the Program services provided to the 30 clients reviewed. PPHD also developed their Cost Allocation Plan (Plan) using an appropriate cost allocation methodology, and maintained personnel files as required. In addition, PPHD properly recorded revenue in their financial records, and deposited DHSP cash receipts into their bank accounts timely.

However, PPHD charged DHSP over \$200,000 in unsupported and/or unallowable questioned costs. For example, PPHD:

- Financial records did not support \$123,397 reported on their CYs 2013-14 and 2014-15 Cost Reports for four cost-reimbursement contracts, and \$28,060 reported on their CY 2014-15 Cost Report for one fee-for-service contract. We noted a similar finding in our prior monitoring report issued on September 23, 2013.

PPHD's attached response indicates that although they disagree with our recommendation to repay DHSP \$123,397, they will work with DHSP to develop a methodology to document their expenditures and repay for any excess amounts received.

- Did not follow their Plan and inappropriately allocated \$33,209 (26%) (\$24,227 in non-payroll and \$8,982 in payroll expenditures) of the \$126,065 in total expenditures reviewed using unallowable and/or unsupported cost allocation methodologies, such as allocating based on budgeted full-time-equivalent or not providing any documentation to support the pre-determined allocation rates used to allocate their shared expenditures.

PPHD's attached response indicates that they will re-allocate all CYs 2014-15 and 2015-16 shared expenditures based on appropriate cost allocation methodologies, and will repay DHSP for any excess amounts received.

- Charged DHSP \$10,333 (14%) of the \$75,067 in expenditures reviewed for unallowable expenditures to four DHSP cost-reimbursement contracts for expenditures that were incurred prior to the effective dates of their County contracts.

PPHD's attached response indicates that they disagree with our recommendation to repay \$10,333 and proposed two alternatives in which they would work with DHSP to recalculate the allowable costs. However, their County contracts do not allow PPHD

to charge DHSP for expenditures incurred prior to the effective dates of their County contracts. As such, PPHD will need to repay DHSP \$10,333.

In addition, PPHD's CY 2014-15 Cost Reports for six contracts did not include \$1,111,176 in additional expenditures that were reported on their financial records. There were no questioned costs since the Agency's CY 2014-15 Program expenditures exceeded the total revenue received from DHSP. However, PPHD management needs to ensure that their Cost Reports are complete, accurate, and supported by their financial records.

PPHD's attached response indicates that they will ensure their Cost Reports are complete, accurate, and supported by their financial records.

On December 1, 2015, the County's Board of Supervisors delegated PPHD's DHSP Ryan White Programs to another agency. As of January 1, 2017, PPHD only has one DHSP contract to provide HCT services through December 31, 2018.

Other issues came to our attention that are relatively immaterial for the purpose of inclusion in this section and are presented in detail in Attachment I.

Review of Report

We discussed our report with PPHD and DHSP. PPHD's attached response (Attachment II) indicates disagreement with some of our findings and recommendations. DHSP will work with PPHD to ensure that our recommendations are implemented.

We thank PPHD management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Agripino Alonso at (213) 253-0304.

JN:AB:PH:AA:YP:sk

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Barbara Ferrer, Ph.D., Director, Department of Public Health
Terry Tornek, Mayor, City of Pasadena
Michael Johnson, Director, City of Pasadena Public Health Department
Public Information Office
Audit Committee

**CITY OF PASADENA PUBLIC HEALTH DEPARTMENT
DIVISION OF HIV AND STD PROGRAMS
CONTRACT COMPLIANCE REVIEW
CONTRACT YEARS 2014-15 and 2015-16**

ELIGIBILITY

Objective

Determine whether City of Pasadena Public Health Department (PPHD or Agency) maintained documentation to support the eligibility of clients that the Agency claimed received the Department of Public Health, Division of HIV and STD Programs (DHSP) Ryan White Comprehensive AIDS Resources Emergency Act (Ryan White) services.

Verification

We reviewed the documentation stored in the case files for 30 (5%) of the 559 clients that PPHD claimed received Ryan White services from March 2014 through July 2015.

Results

PPHD did not maintain documentation to support the eligibility of five (17%) of the 30 clients reviewed. Specifically, the Agency did not obtain documentation to support that the clients met the eligibility requirements of residency, income, and/or verification that the clients were not eligible for another payer source as required. According to Sections 2 and 6 of their County contracts, oral health care, mental health psychotherapy, and ambulatory outpatient medical services should be provided to individuals who are diagnosed with HIV or AIDS, are residents of Los Angeles County, have income at or below 400% of federal poverty level, and are not eligible for another payer source. In addition, PPHD did not reassess the clients' eligibility for Ryan White services every six months as required by Sections 2 and 6 of their County contracts. Of the five ineligible clients, one client received ambulatory outpatient medical services, which DHSP paid PPHD on a fee-for-service basis. As such, PPHD management needs to determine the total Contract Years (CY) 2014-15 and 2015-16 billings related to the one ineligible client, and repay DHSP.

Recommendations

City of Pasadena Public Health Department management:

- 1. Determine total Contract Years 2014-15 and 2015-16 billings related to the one ineligible client who received ambulatory outpatient medical services, and repay the Division of HIV and STD Program.**
- 2. Maintain adequate documentation to support the clients' eligibility.**

3. **Ensure clients are properly reassessed and screened for eligibility requirements every six months as required.**

PROGRAM SERVICES

Objective

Determine whether PPHD maintained documentation to support the services charged to DHSP.

Verification

We reviewed the case files for 30 (5%) of the 559 clients that the Agency claimed received Program services from March 2014 through July 2015.

Results

PPHD maintained documentation to support the services provided to the 30 clients reviewed.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether PPHD properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if the bank reconciliations were prepared timely, and reviewed and approved by Agency management.

Verification

We interviewed PPHD management, and reviewed their financial records and April and May 2015 bank reconciliations for two bank accounts.

Results

PPHD properly recorded revenue in their financial records, and deposited DHSP cash receipts into their bank accounts timely. However, PPHD did not prepare their bank reconciliations within 30 days of the bank statement dates as required by Section B.1.4 of the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook). Specifically, PPHD's June and July 2015 bank reconciliations were prepared over 30 to 60 days after the bank statement dates. In addition, their bank reconciliations

were not dated by the preparer and reviewer as required by Section B.1.4 of the A-C Handbook.

Recommendation

- 4. City of Pasadena Public Health Department management ensure bank reconciliations are prepared timely and dated by the preparer and the reviewer.**

COST ALLOCATION PLAN/EXPENDITURES

Objective

Determine whether PPHD developed their Cost Allocation Plan (Plan) using an appropriate cost allocation methodology, and if expenditures charged to DHSP were allowable, properly documented, and appropriately allocated.

Verification

We interviewed PPHD's personnel, and reviewed their Plan and financial records for 31 non-payroll expenditures, totaling \$75,067, that the Agency charged to DHSP during March 2014 through May 2015.

Results

PPHD developed their Plan using an appropriate cost allocation methodology. However, PPHD did not follow their Plan and inappropriately allocated \$24,227 (32%) (\$13,887 to four cost reimbursement contracts and \$10,340 to one fee-for-service contract) of the \$75,067 in expenditures reviewed using unallowable and unsupported cost allocation methodologies, such as allocating based on budgeted full-time-equivalent or not providing any documentation to support the pre-determined allocation rates used to allocate their shared expenditures. In addition, PPHD charged DHSP \$10,333 (14%) of the \$75,067 in expenditures reviewed for unallowable expenditures to four DHSP cost-reimbursement contracts for expenditures that were incurred prior to the effective dates of their County contracts. According to Section C.1.2 of the A-C Handbook, expenditures charged against Program funds may not be incurred prior to the effective date of the agreement.

Recommendations

City of Pasadena Public Health Department management:

- 5. Repay the Division of HIV and STD Programs \$10,333, or provide documentation to support the expenditures.**
- 6. Re-allocate all Contract Years 2014-15 and 2015-16 shared expenditures based on appropriate cost allocation methodologies, submit their**

revised Cost Reports to the Division of HIV and STD Programs, and repay the Division of HIV and STD Programs for any excess amounts received.

7. **Ensure expenditures are allowable and appropriately allocated.**
8. **Maintain adequate documentation to support Program expenditures.**

PAYROLL AND PERSONNEL

Objective

Determine whether PPHD maintained personnel files as required and charged payroll expenditures to DHSP that were allowable, properly documented, and appropriately allocated.

Verification

We interviewed employees, and reviewed personnel files for 15 employees. We also compared the payroll expenditures for 15 employees, totaling \$50,998 for February and March 2015, to the Agency's payroll records and time reports.

Results

PPHD maintained personnel files as required. However, similar to Cost Allocation Plan/Expenditures section, PPHD did not follow their Plan and inappropriately allocated their shared payroll expenditures using unallowable and unsupported cost allocation methodologies. Specifically, PPHD did not provide any documentation to support the pre-determined allocation rates used to allocate their shared payroll expenditures for \$8,982 (18%) (\$7,707 in cost-reimbursement contracts and \$1,275 in fee-for-service contract) of the \$50,998 in payroll expenditures reviewed.

Recommendations

Refer to Recommendations 6, 7, and 8.

City of Pasadena Public Health Department management:

9. **Repay the Division of HIV and STD Programs \$7,707, or provide adequate documentation to support the expenditures.**

COST REPORTS

Objective

Determine whether PPHD's CYs 2013-14 and 2014-15 Cost Reports reconciled to their financial records, and if the Agency's administrative costs were within their contracts' ten percent limits.

Verification

We compared PPHD's CYs 2013-14 and 2014-15 Cost Reports to their financial records. We also determined whether PPHD's administrative costs were within their contracts' ten percent limits.

Results

PPHD's CYs 2013-14 and 2014-15 Cost Reports did not reconcile to their financial records. Specifically, PPHD's:

- Financial records did not support \$123,397 reported on their CYs 2013-14 and 2014-15 Cost Reports for four cost-reimbursement contracts and \$28,060 reported on their CY 2014-15 Cost Report for one fee-for-service contract. In addition, as previously mentioned, PPHD did not follow their Plan and inappropriately allocated their shared Program expenditures using unallowable and unsupported cost allocation methodologies. As such, PPHD management needs to repay DHSP \$123,397 and re-allocate all shared expenditures based on appropriate cost allocation methodologies, submit their revised Cost Reports to DHSP, and repay DHSP for any excess amounts received. We noted a similar finding in our prior monitoring report issued on September 23, 2013.
- CY 2014-15 Cost Reports for six contracts did not include \$1,111,176 in additional expenditures that were reported on their financial records. There were no questioned costs since the Agency's CY 2014-15 Program expenditures exceeded the total revenue received from DHSP. However, PPHD management needs to ensure that their Cost Reports are complete, accurate, and supported by their financial records.

In addition, PPHD's administrative costs for their medical care coordination services contract exceeded the contracts' ten percent limits in CY 2014-15 by \$5,472, mainly due to rent expenditures being misclassified as an administrative cost. Effective January 1, 2015, the Health Resources and Services Administration, the federal agency that oversees the Ryan White Programs, revised their guidelines to allow rent expenditures to be charged as direct Program cost, which are not subject to the ten percent administrative costs limit. DHSP management has indicated that they will work with PPHD to determine how much of the rent expenditures, if any, will need to be repaid.

Recommendations

Refer to Recommendations 6, 7, and 8.

City of Pasadena Public Health Department management:

10. Repay the Division of HIV and STD Programs \$123,397.
11. Work with the Division of HIV and STD Programs in determining their actual administrative costs for Contract Year 2014-15, and repay the Division of HIV and STD Programs for any excess amounts received.
12. Ensure that the Agency's administrative costs are classified appropriately and within their contracts' ten percent limits.
13. Ensure Cost Reports are complete, accurate, and supported by their financial records.



PUBLIC HEALTH DEPARTMENT

March 23, 2017

John Naimo
Auditor-Controller
Los Angeles County Auditor Controller
Kenneth Hahn Hall of Administration
500 W Temple St. Rm 525
Los Angeles, CA. 90012-3873

Subject: Final Draft Report-City of Pasadena Public Health Department HIV and STD Program
Provider Contract Compliance Review-Revised

Dear Mr. Naimo,

Please find attached the City of Pasadena Public Health Department's (PPHD) revised response to the above noted Final Draft Report provided to the PPHD via email on February 9, 2017. The PPHD's response includes a plan of corrective action (POCA) for each of the 13 draft findings.

The Los Angeles County Department of Public Health Division of HIV and STD Programs Ryan White Programs were delegated to John Wesley Community Health Inc. (JWCH) by Los Angeles County Board of Supervisors action on December 1, 2015; transition period for all contracts occurred during Fiscal Year 2015 2016.

Sincerely,

Michael Johnson
Director



CITY OF PASADENA PUBLIC HEALTH DEPARTMENT
SOCIAL AND MENTAL HEALTH DIVISION
RYAN WHITE CONTRACTS FISCAL YEAR REVIEW 2014-16

Recommendations	Response
1. Determine total Contract Years 2014-15 and 2015-16 billings related to the one ineligible client who received ambulatory outpatient medical services, and repay the Division of HIV and STD Program.	PPHD agrees with the recommendation and will ensure that documentation on eligibility is maintained in client records, and will work with DHSP on repayment or other methods of reconciliation.
2. Maintain adequate documentation to support the clients' eligibility.	PPHD agrees with the recommendation and will ensure that documentation on eligibility is maintained in client records.
3. Ensure clients are properly reassessed and screened for eligibility requirements every six months as required.	PPHD agrees with the recommendation and will ensure that documentation on eligibility is maintained in client records.
4. City of Pasadena Public Health Department management ensure bank reconciliations are prepared timely and dated by the preparer and the reviewer.	PPHD agrees with the recommendation, and will ensure bank reconciliations are prepared timely and dated by the preparer and the reviewer.
5. Repay the Division of HIV and STD Programs \$10,333, or provide documentation to support the expenditures.	The PPHD disagrees with the recommendation, and proposes the following; Direct Costs -PPHD is awaiting for DHSP to provide access to casewatch. Upon receiving access, PPHD will work with DHSP to calculate allowable costs. If there is a variance between the DHSP validated costs and the reimbursed costs, the department will refund any unauthorized reimbursement. Depending on the magnitude of any such variance, PPHD may request adjusting the cost reports for each affected program. Indirect Costs - If the allocation of direct costs requires adjustment, PPHD will recalculate indirect costs based on the approved Cost Allocation Plan. Depending on the magnitude of any such adjustment, PPHD may request adjusting the cost report for each affected program.
6. Re-allocate all Contract Years 2014-15 and 2015-16 shared expenditures based on an appropriate cost allocation methodology, and repay Division of HIV and STD Programs for any excess amounts.	The PPHD agrees with the recommendation and will work with DHSP on developing new cost reports. PPHD will work with DHSP for repayment or other methods of reconciliation.
7. Ensure expenditures are allowable and appropriately allocated.	The PPHD agrees with the recommendation and will ensure expenditures are allowable and appropriately allocated.
8. Maintain adequate documentation to support Program expenditures.	The PPHD agrees with the recommendation and will maintain adequate documentation to support program expenditures.
9. Repay the Division of HIV and STD Programs \$7,707, or provide adequate documentation to support the expenditures.	The PPHD disagrees with the recommendation to repay DHSP \$7,707. The PPHD will work with DHSP to develop a methodology to document the expenditures, and will work with DHSP or other



CITY OF PASADENA PUBLIC HEALTH DEPARTMENT
SOCIAL AND MENTAL HEALTH DIVISION
RYAN WHITE CONTRACTS FISCAL YEAR REVIEW 2014-16

	methods of reconciliation.
10. Repay the Division of HIV and STD Programs \$123,397.	The PPHD disagrees with the recommendation to repay DHSP \$123, 397 The PPHD will work with DHSP to develop a methodology to document the expenditures to repay any excess amounts received.
11. Work with the Division of HIV and STD Programs in determining their actual administrative costs for Contract Year 2014-15, and repay the Division of HIV and STD Programs for any excess amounts received.	The PPHD disagrees with the recommendation. Note that revised cost reports have already been submitted to DHSP and repayments have already occurred. The PPHD will request guidance from DHSP as to specific billing and which documentation will support program expenditures including the rent and administrative costs.
12. Ensure that the Agency's administrative costs are classified appropriately and within their contract's ten percent limits.	The PPHD agrees with the recommendation and will ensure administrative costs are classified appropriately and within the contract's ten percent limits.
13. Ensure Cost Reports are complete, accurate, and supported by their financial records.	The PPHD agrees with the recommendation and will ensure cost reports are complete, accurate and supported by the financial records.