

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor - Controller	(2) MEETING DATE 12/6/2011	(3) CONTACT/PHONE Jim Erb, Assistant Auditor-Controller 781-5040	
(4) SUBJECT Submittal of a follow-up report to the March 18, 2011 audit of Choices House I contract with the Behavioral Health division of the Health Agency to provide, maintain, and operate a perinatal transitional living center.			
(5) RECOMMENDED ACTION It is recommended that the Board receive and file the follow-up report.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$94,000.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. _____) <input type="checkbox"/> Board Business (Time Est. _____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A		(12) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
(13) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(14) W-9 <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
(15) LOCATION MAP N/A	(16) BUSINESS IMPACT STATEMENT? No	(17) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date 4/19/2011	
(18) ADMINISTRATIVE OFFICE REVIEW			
(19) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Gere W. Sibbach, Auditor-Controller

DATE: 12/6/2011

SUBJECT: Submittal of a follow-up report to the March 18, 2011 audit of Choices House I contract with the Behavioral Health division of the Health Agency to provide, maintain, and operate a perinatal transitional living center.

RECOMMENDATION

It is recommended that the Board receive and file the follow-up report.

DISCUSSION

The objective of our review was to determine if the Contractor and the Department had implemented the Auditor-Controller's recommendations from our March 18, 2011 audit report.

We determined that both the Contractor and the Behavioral Health Department have implemented the recommendations provided in the prior audit report.

We have attached our review report which includes prior Findings, Recommendations and Follow-Up Results sections. Subsequent to the issuance of our report, we were notified that the Contractor has chosen to terminate the contract with the County in accordance with the termination provisions of the contract.

OTHER AGENCY INVOLVEMENT/IMPACT

None

FINANCIAL CONSIDERATIONS

No additional appropriations are requested. The Choices House I contract was for \$94,000 and was included in the department's budget.

RESULTS

Implementing the recommendations outlined in the attached report improved the Contractor's compliance and supported departmental monitoring consistent with the department's goals of providing a successful Perinatal Transitional Living Center.

ATTACHMENTS

Choices Department Report

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TO: JEFF HAMM, HEALTH AGENCY DIRECTOR
FROM: GERE W. SIBBACH, AUDITOR-CONTROLLER
VIA: JAMES P. ERB, ASSISTANT AUDITOR-CONTROLLER
DATE: NOVEMBER 7, 2011
SUBJECT: FOLLOW-UP REVIEW TO AN AUDIT OF THE CHOICES HOUSE I CONTRACT

Our office previously performed a contract compliance audit of the Choices House I and II contracts and issued a report to you on March 18, 2011. We recently performed a follow-up review of the Choices House I contract. Choices House II closed on September 1, 2011 so we limited our follow-up review to Choices House I. Our review focused on supervision, reporting of expenditures, vehicle expenses, and contractor reimbursement and monitoring.

Background

Kim and Peter Sheehan (Contractor), doing business as Choices House have contracted with the County of San Luis Obispo's Behavioral Health Department to provide, maintain, and operate a Perinatal Transitional Living Center consistent with State and Federal Guidelines for pregnant and parenting women and their children ages 0-6 affected by substance abuse as defined in "Perinatal Services Network Guidelines". Additionally, the Contractor is to ensure that all families living in the facilities have access to and receive services from the Perinatal Outpatient Extended Group (POEG) program provided by San Luis Obispo County Drug and Alcohol Services.

Choices House 1 has capacity for five women and up to ten children and is located in North County. The home is designed to provide a safe haven for mothers who have substance abuse issues and their children. In addition to the scope of service mentioned above the contract details a number of "Service Specifications" designed at ensuring that a safe and sober living environment is provided to the residents of both houses.

Purpose

The objective of our review was to determine if the Contractor and the Behavioral Health Department have implemented the recommendations in the original audit report dated March 18, 2011.

Scope

We reviewed Choices House I for the period from June through August 2011.

Methodology

Our review included interviews with Health Agency staff and examination of contractor documentation.

Summary

We found that both the Behavioral Health Department and the Contractor have implemented the recommendations provided in the prior audit report. The follow up results to the findings and recommendations from that report are discussed below:

Previous Findings and Recommendations and Follow-Up Results

1. 24 hour/365 day Supervision

The contract specifically states, "Supervision shall be 24 hours per day, 365 days per year, including backup coverage in case of a staff emergency. Overnight supervision shall be awake". We were unable to verify that supervision is being provided on a 24/7 basis. The Contractor asserts that supervision is performed by Kim Sheehan or provided by a house volunteer; however, the Contractor was unable to produce any records such as staffing schedules, time cards, sign-in logs, or volunteer names. In the absence of any time log or time card process, we cannot verify that the 24 hour supervision requirements are being met. Lack of adequate supervision jeopardizes the County and could place the clients at risk.

Recommendation

The Contractor must maintain time cards and/or house logs to verify that each house is staffed according to the contract. All volunteers must be appropriately screened for compatibility with the program objectives.

Follow-Up Results

We found the Contractor is keeping general documentation by work shift for house supervision, and the department is reviewing the documentation. Health Agency staff stated that the newest contract requirements for supervision will be changed to not require the supervisor to remain awake during overnight supervision.

2. Over Reporting of Expenditures

We found the Contractor was over reporting some expenses and in other cases providing estimated instead of actual expenses in the monthly expense reports. Exhibit B, Section 1. C. of the contract states that the monthly report shall show actual expenses for the prior full month. We found that in some instances the Contractor used estimated rather than actual expenses in the monthly expense reports. For example, we found the Contractor claimed \$7,500 for the deposit on a rental property, but the lease agreement identifies a deposit of \$3,000. The Contractor also over-estimated annual property taxes by \$747. "Other" start up costs" was overestimated by \$383. The Contractor's failure to report actual expenses, as required in the contract, resulted in an over-reporting in certain accounts. Failure to report actual expense as required by the contract could result in the County over-compensating the Contractor.

Recommendations:

As per the contract, the Contractor must report actual costs on the monthly expense reports. In addition the Department must work with the Contractor to verify actual costs are being reported. The Contractor must retain documentation of receipts, lease agreements, or other supporting documentation. The Department should ensure the \$3,000 deposit is returned to the County upon termination of contractor services or when the lease expires and the deposit is returned to the Contractor.

Follow-Up Results

We found that the Contractor appears to be reporting actual costs on the monthly expense reports and retaining supporting documentation. The Department states that the monthly expense report is reviewed with the contractor.

3. Double Claiming Vehicle Expenses:

The Contractor claimed both mileage reimbursement and actual vehicle costs such as gas, insurance, and vehicle repairs. In addition, the Contractor did not keep a vehicle log identifying the mileage, date, or purpose of trips. Mileage was calculated by multiplying the number of gallons purchased by the vehicle's average miles per gallon. We are unable to determine if gas receipts represented only program related expenses or include personal expenses. By claiming both mileage reimbursement and actual vehicle cost, the Contractor had overestimated reported vehicle costs. The overestimated vehicle costs are \$7,041 for Choices House 1 and \$4,392 for Choices House 2. By claiming duplicate vehicle expenses, the Contractor could have received unwarranted compensation.

Recommendation:

The Contractor must consistently apply the same method of reporting vehicle expenses and must ensure that personal expenses are not included in the monthly expense report. The Department must ensure that vehicle expenses are only being claimed once. See the Summary section of this report for a discussion of the overall expenses and reimbursements.

Follow-Up Results

We found the Contractor is claiming vehicle expenses based on gasoline receipts. The Department is monitoring the invoices to ensure that vehicle expenses are only being claimed once.

4. Reimburse According to the Contract Terms

The Department did not adhere to the compensation terms of the contract by varying the monthly payments and by paying the Contractor \$2,000 over the total contract amount for Choices House 1. According to the contract between the Department and Choices House 1, the compensation for Choices House 1 was not to exceed \$94,000, nor exceed a reimbursement rate of up to \$7,833 per month. Behavioral Health reimbursed the contractor \$8,000 per month from July 2009 to January 2010; a \$10,000 payment was made in February 2010, and for each of the periods March 2010 to June 2010 the Contractor was reimbursed \$7,500. Total contract reimbursement was \$96,000, a \$2,000 overpayment for the contract term. The Department had paid the Contractor for three months of service before the contract had been approved. When the purchase order was created, the Department overstated the remaining balance by \$2,000 for the Choices House 1 contract. Higher monthly payments at the beginning of the year result in lower payments in the final months of the contract and may result in cash flow issues for the Contractor in the later months.

Recommendations:

We recommend that the Department strictly follow the maximum monthly compensation terms providing the actual expenses equal or exceed the monthly amount stated in the contract. If the Contractor requests a deviation from the compensation terms, the request should be submitted in writing to the Department. Behavioral Health must then determine the validity of the request and adjust the compensation component of the contract accordingly. The

Department cannot reimburse the Contractor for more than the Board of Supervisors approved contract amount and must request a refund of the \$2,000 overpayment.

Follow-Up Results

We verified that the Department appropriately paid the monthly contracted payment maximum amount.

5. Contractor Reimbursement Not Defined

The contract between Kim and Peter Sheehan and Behavioral Health does not identify how much the Contractor is to be reimbursed for the services they are providing. The Contractor often requests payment as soon as she submits the monthly reports which requires the County to pay her with an "over the counter" warrant rather than via the Auditor-Controller's regular, twice a week, vendor payment process. The Contractor submitted monthly claims that include \$7,000 a month in staffing costs, \$6,000 a month for "labor" and \$1,000 for "benefits". Since the Contractor does not have any employees, it is apparent that the labor costs reflect her compensation. A contract should address contractor compensation and base the compensation on a fixed amount (industry standards) or services provided such as available bed count. A clear calculation will provide stability to the Contractor allowing her to focus on the important task of maintaining, staffing, and supporting the clean and sober environments of two homes.

Recommendation:

Future contracts must address the issue of contractor compensation and appropriate staffing levels. The Department must then monitor the Contractor's monthly services to ensure expenses are appropriate and are adequate to support the expectations of the contract's service specifications.

Follow-Up Results

The Department believes, and we agree, that compensation and staffing levels are appropriate based on the Department's experience with these types of services. The requirements for supervision staffing will be more clearly detailed in the new contract which will cover Federal Fiscal Year 2011-12. We found the Department is monitoring the Contractor's monthly expenses and services.

6. Contractor Requires Closer Monitoring

Contract requirements cover a variety of areas from supervision and training to accounting and budgeting. The requirements range from the straightforward, such as the "24/7 coverage" referenced in Finding 1 to the relatively complex, such as monthly submission of a budget to actuals report, and staff training requirements. We believe the Contractor needs assistance in meeting the contract requirements. The Contractor's inability to properly document compliance with the contract requirements (as discussed in Findings 1, 2, 3 and 7 above) is evidence that the Contractor is struggling to meet the requirements of the contract while providing client services. The Contractor's difficulty in adhering to the provisions of the contract places both the clients and the County at risk.

Recommendation:

The Department must monitor the Contractor's compliance with both the operational and fiscal requirements of the Contract. The Department should consider providing training to the Contractor and Contractor's staff as required.

Follow-Up Results

We found the Department is monitoring the Contractor's compliance with both the operational and fiscal requirements of the contract. Health Agency staff stated that the Department's Operational Staff is meeting weekly with the Contractor. Additionally, the Department has discussed the Auditor-Controller's Contract Accounting Handbook with the Contractor, and the handbook has been provided to the Contractor. The Department plans to conduct a site visit of the contractor in early 2012.

We would like to thank Choices House 1, the Health Agency Director, and his staff for their cooperation during this follow-up review.