

**Agenda Item No. 4
December 4, 2013 Meeting**

DATE: November 18, 2013

TO: Children and Families Commission of Orange County

FROM: Christina Altmayer, Executive Director 

SUBJECT: Audit Results and Recommendations for Southern California Alcohol and Drug Programs, Inc.

SUMMARY:

The Commission has funded the Southern California Alcohol and Drug Programs (SCADP) since 2001 to provide homeless single mothers in recovery from drug or alcohol addiction with children ages 0-5 a transitional shelter program. The program provides shelter, life skills classes, case management, and other support services. SCADP operates four residential treatment centers in Orange County and the Commission's funding supports the Heritage House Village program located in Anaheim, which is one of the only Drug and Alcohol recovery programs that focus on homeless women and young children. SCADP receives \$130,000 annually to provide transitional shelter to a minimum of 20 women and their children.

Based on issues identified during the Commission's ongoing risk assessment, the agencies inability to comply with the Commission's end of contract audit requirement, and frequent staffing changes and irregularities in their billings, the Commission Executive Director authorized an audit of submitted invoices for FY 2011/12. The Commission was initially notified of performance problems and staffing issues in October 2011, at that time SCADP agreed to a corrective action plan. Initially SCADP was able to comply with the corrective action plan, but there continued to be problems with timely billings and completing Commission required audits.

The Commission engaged KNL Support Services to verify the documentation and accuracy of submitted invoices in accordance with standards established by the American Institute of Certified Professional Accountants. The audit firm submitted a report to the Commission in October. After receiving the report, Commission staff and the auditors met with representatives of SCADP to review the findings in the report and request a management report. The Commission received a final management response in November. This staff report summarizes the audit findings and recommended corrective action plan.

DISCUSSION**Audit Findings & Staff Recommendations:**

The audit scope examined and verified the source documents for all costs included in the invoices submitted to the Commission for FY 2011/12. The auditor reviewed the executed agreement between SCADP and the Commission including a budget table and narrative description of the budget items that were allowable under the agreement. During the initiation of the audit, the Commission staff was notified that the SCADP executive director had resigned and that SCADP had entered into an agreement with Volunteers of America Los Angeles (VOA LA) to provide operational, management, and administrative functions.

The audit firm worked with the designated VOA LA staff and completed the audit of the invoices. The completed audit report noted significant issues with internal controls, compliance with the Commission's general terms and conditions, lack of supporting documentation for the charges included in the invoices, and issues with payroll and labor reporting. In sum, the audit identified a total of \$48,000 in unverified expenses against invoices of \$119,401 submitted to the Commission for the period of July 1, 2011 through June 30, 2012.

The SCADP management response as prepared by VOA LA staff includes the following:

- Recognition and acceptance of the audit finding of the unverifiable expenses.
- Request to credit the \$48,000 due to the Commission as a service payback for services to be rendered during FY 2012/13; i.e. SCADP will demonstrate that services have been provided equaling \$48,000 for FY 2012/13 and will not be reimbursed for these services.
- Agreement to adhere to a number of administrative and accounting policies and procedures that have been put in place since VOA LA took control of the executive management and Board of Directors.

Staff recommends implementing the following corrective action plan:

- Acceptance of the in-kind service payback in the amount of \$48,000 for FY 2011/12. Credit will only be given once Commission has verified expenses charged to the grant for services provided in FY 2012/13.
- Audit of all subsequent invoices submitted for services for FY 2012/13 and FY 2013/14. These invoices have been on hold pending the results of the audit. Staff will request that invoices be examined by the same audit firm before any service credits are applied and or additional funds are paid out. This is a necessary precaution based on the nature of the auditor's findings and the management response that indicates that there has been a significant change in administrative and account policy and procedures effective March 2013 when VOA LA began their management agreement with SCADP.
- Regular communication with VOA LA to ensure that changes to management practices are continued to be adhered and in effect.

Because SCADP has not complied with the Commission's contractual requirement to have an independent Certified Public Accountant conduct an end of contract audit, the Commission is still holding retention for fiscal years 2009/10, 2010/11, and 2012/13 with an estimated value of \$37,000. If the audits for the three fiscal years are not submitted to the Commission by June 30, 2014, pursuant to the Commission's policies, the retention amount of \$37,000 will be reassigned to the Commission's undesignated fund balance.

STRATEGIC PLAN & FISCAL SUMMARY:

The services provided under agreement with Southern California Alcohol and Drug Program are consistent with the strategic plan within the goal are of Strong Families/Homeless Prevention. Funding for this contract has been allocated with the Strong Families/Homeless Prevention Budget category. If the audits are not submitted and the Commission directs staff to accept the service payback of \$48,000 and the release of \$37,000 retention, the Commission will have an additional \$85,000 of undesignated funding.

PRIOR COMMISSION ACTIONS:

- March 6, 2013- Funding recommendation staff discussed concerns over program performance and management.
- March 7, 2012- Funding recommendations
- October 2011- Notification of performance issues

RECOMMENDED ACTION:

Receive update on Southern California Alcohol and Drug Programs Audit Report and approve proposed corrective action plan.

Contact: Kim Goll