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DEPARTMENT OF CHILDREN AND FAMILY SERVICES
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May 20, 2016

To: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Philip L. Browning
Director

PACIFIC LODGE YOUTH SERVICES, INC. FISCAL COMPLIANCE ASSESSMENT

The Department of Children and Family Services (DCFS) Contracts Administration Division (CAD) conducted a Fiscal Compliance Assessment of Pacific Lodge Youth Services (the Contractor) in September 2015. The Contractor has one licensed site located in the Third Supervisorial District and provides services to Probation placed children and children from other counties. According to the Contractor's Program Statement, its stated purpose is, "to provide specialized residential care and treatment program for adolescent boys between the ages of 13-18."

At the time of the review, the Contractor served 15 Probation placed children. The placed children's overall average length of placement was two months and their average age was 17.

SUMMARY

CAD conducted a Fiscal Compliance Assessment which included an agency-wide review of the Contractor's financial records such as financial statements, bank statements, check register, and personnel files to determine their compliance with the terms, conditions, and requirements of the Group Home Contract, the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) and other applicable federal, State, and County regulations and guidelines.

The Contractor was in full compliance with 3 of 5 areas of the Fiscal Compliance Assessment: Loans, Advances and Investments; Board of Directors and Business Influence; and Payroll and Personnel.

CAD identified deficiencies in the areas of: Financial Overview, related to the audited financial statements showing an operating loss of $107,727 and non-timely submittal of the Semi-Annual Expenditure Reports; and Cash/Expenditures, related to unresolved outstanding checks noted on bank reconciliations.

Attached are the details of CAD's review.

REVIEW OF REPORT

On November 2, 2015, Helga Kiaian, DCFS CAD, held an exit conference with the Contractor's representative Robert Kutaj, Chief Financial Officer. The Contractor's representative agreed with the review findings and recommendations; was receptive to implementing systemic changes to improve compliance with its DCFS contract and agreed to address the noted deficiencies in a Fiscal Corrective Action Plan (FCAP).

The Contractor provided the attached approved FCAP addressing the recommendations noted in this report.

A copy of this compliance report has been sent to the Auditor-Controller and Community Care Licensing.

If you have any questions, your staff may contact me or Aldo Marin, Board Relations Manager, at (213) 351-5530.

PLB:KR
LTI:dlf

Attachments

c: Sachi A. Hamai, Chief Executive Officer
John Naimo, Auditor-Controller
Calvin C. Remington, Interim Chief Probation Officer
Public Information Office
Audit Committee
Sybil Brand Commission
Robert Kutaj, Chief Financial Officer, Pacific Lodge Youth Services
Lenora Scott, Regional Manager, Community Care Licensing Division
Lajuannah Hills, Regional Manager, Community Care Licensing Division

PACIFIC LODGE YOUTH SERVICES, INC.
FISCAL COMPLIANCE ASSESSMENT REVIEW
FISCAL YEAR 2015 - 2016

SCOPE OF REVIEW

The Fiscal Compliance Assessment included a review of Pacific Lodge Youth Services' (the Contractor's) financial records for the period of January 1, 2014 through July 30, 2015. Contracts Administration Division (CAD) reviewed the financial statements, bank statements, check register, and personnel files to determine the Contractor's compliance with the terms, conditions, and requirements of the Group Home Contract, the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) and other applicable federal, State, and County regulations and guidelines.

The on-site Fiscal Compliance Assessment review focused on five key areas of internal controls:

- Financial Overview,
- Loans, Advances and Investments,
- Board of Directors and Business Influence,
- Cash/Expenditures, and
- Payroll and Personnel.

The Contractor was in full compliance with 3 of 5 areas of the Fiscal Compliance Assessment: Loans, Advances and Investments, Board of Directors and Business Influence, and Payroll and Personnel.

FISCAL COMPLIANCE

CAD found the following two areas out of compliance:

Financial Overview

- During the review it was noted that the Contractor's Audited Financial Statements for the Fiscal Year (FY) ending December 31, 2014, showed an operating loss of $107,727 after an income investment of $173,328.

The loss was a result of a $231,821 liability for the audits of the County of Los Angeles Department of Mental Health's (DMH's) cost reports for 2005 to 2012. The Contractor repaid $77,266 on September 15, 2015. The monthly payments are $12,879.60 for 12 months.

- Non-timely completion and submittal of the Semi-Annual Expenditure Reports (SAERs).

The SAER due on March 1, 2015, was not submitted until March 10, 2015. The SAER due on September 1, 2015, was not submitted until September 14, 2015.

The Chief Financial Officer will ensure that all the reports are submitted timely.

Recommendations:

The Contractor's Board of Directors shall ensure that:

1. Management prepares and implements a plan to operate without incurring any operational losses.

2. SAERs are submitted timely.

Cash/Expenditures

- The Contractor did not resolve the outstanding items on a timely basis.

Bank reconciliations for the months of May, June, and July 2015, show outstanding checks for more than six months. The Contractor will review and resolve all outstanding items on a monthly basis and ensure that adjustments are made monthly to the reconciliations.

Recommendation:

The Contractor's management shall ensure that:

3. Outstanding items on the bank reconciliation reports are resolved timely.

NEXT FISCAL COMPLIANCE ASSESSMENT

The next Fiscal Compliance Assessment of the Contractor will be conducted in County FY 2016-2017.