

**REPORT ON THE
LIMITED REVIEW**

**COUNTY OF DEL NORTE
DEPARTMENT OF HEALTH & HUMAN SERVICES
CRESCENT CITY, CALIFORNIA**

**HIV CARE PROGRAM
AGREEMENT NO. 10-95255
FISCAL YEAR ENDED JUNE 30, 2011**

**Audits Section - Sacramento
Financial Audits Branch
Audits and Investigations
California Department of Health Care Services**

**Section Chief: Steve Gary
Audit Supervisor: Jeff Sandman
Auditor: Bill Potts**



State of California—Health and Human Services Agency
Department of Health Care Services



EDMUND G. BROWN JR.
GOVERNOR

June 15, 2012

Gary Blatnick, Director
Department of Health & Human Services, County of Del Norte
880 Northcrest Drive
Crescent City, CA 95531

The expenditure claims for services provided by the County of Del Norte, Department of Health and Human Services under the HIV Care Program, Agreement No.10-95255, for the fiscal year ended June 30, 2011, have been reviewed by the Financial Audits Branch of the California Department of Health Care Services. In addition, a limited review was made of the program's management and operational procedures.

Except as set forth in the following paragraph, our review was made in accordance with generally accepted government auditing standards as promulgated by the Comptroller General of the United States. Accordingly, our review included such tests of the accounting records and other review procedures as we considered necessary under the circumstances.

The financial statements of the County of Del Norte for the year ended June 30, 2010, were examined by other auditors. Their audit report, issued May 3, 2011, expressed a qualified opinion on the financial statements. The audit report for the year ended June 30, 2011, had not been issued as of the date of completion of our fieldwork.

The scope of our review was limited to specific contract or program requirements relating to financial compliance and did not include sufficient work to determine whether financial statements present fairly the financial position and the results of the financial operations. We have not duplicated the work performed by the other auditors.

As noted in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position referred above. Consequently, no financial statements are presented.

This Audit Report includes:

1. Executive Summary of Findings
2. Introduction
3. Scope of Review
4. Program Compliance
5. Fiscal Findings
6. Financial Schedules

Director
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The report concludes that an amount of \$737 is due from the County.

If you have any questions please contact Kathleen Bennett, Care Operations Advisor, at (916) 449-5984.

Original Signed By

Steven Gary, Chief
Audits Section – Sacramento
Financial Audits Branch

Certified

cc: Melody Cannon, Program Manager
Del Norte County Dept. of Health & Human Services
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Crescent City, CA 95531

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I. EXECUTIVE SUMMARY OF FINDINGS

The following information is a summary of our findings/observations:

1. An amount of \$737 is due the State (See Fiscal Findings, Section V).
2. The subcontract did not contain provisions requiring compliance with applicable terms and conditions contained in the State Agreement with the County (See Contract Compliance, Section IV).
3. Procedures were not in place to ensure that subcontractor claimed funds were payer of last resort (See Fiscal Findings, Section V).
4. Distribution of the total activity of subcontractor employee's, whose compensation was charged to federally funded programs, was not fully documented (See Fiscal Findings, Section V).

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II. INTRODUCTION

A. DESCRIPTION OF PROGRAM

The HIV CARE Program is responsible for assuring the provisions of humane, cost-effective, and appropriate health and social service resources for persons with HIV along the entire continuum of care. The HIV Care Branch, State Office of Aids (OA), with state and federal funding, administers Ryan White Part B Comprehensive AIDS Resources Emergency Act (CARE) funds for planning, development, and delivery of comprehensive outpatient health and support services to meet the identified needs of individuals and families with HIV/AIDS disease within the geographic area.

B. DESCRIPTION OF AGENCY

Del Norte County Department of Health & Human Services (COUNTY), an organization of the County of Del Norte, is responsible, in part, for administration of the HIV Care Program for persons with AIDS or HIV infection in Del Norte county and served as the fiscal agent that received funds from the California Department of Public Health, Office of AIDS, and distributed them to the service provider.

C. SITE LOCATIONS

Fiscal Agent

County of Del Norte, Department of Health & Human Services
880 Northcrest Drive
Crescent City, CA 95531

HIV Care Program Services Provider - Home Office:

Open Door Community Health Centers
670 Ninth Street, Suite 203
Arcata, CA 95521

HIV Care Program Services Provider - Facility:

Del Norte Community Health Center
550 E. Washington Blvd.
Crescent City, CA 95531

D. FUNDING SOURCES

COUNTY is primarily funded by grants/contributions, taxes and program service fees. The HIV Care Program three year grant funding period is July 1, 2010 to June 30, 2013.

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II. INTRODUCTION

E. CONTRACT GOALS AND OBJECTIVES

The primary goal of the program is to provide direct services for HIV care and support to individuals living with HIV/AIDS or at risk of HIV infection in the service area.

Specific Scope of Work provisions cite, in part, that the Contractor (COUNTY) shall:

1. Provide comprehensive, ongoing medical services to individuals with HIV/AIDS. Services must be based on the tier one HRSA service category, *Outpatient/Ambulatory Medical Care*.
2. Provide HRSA Core and Support services as necessary, and as funds permit, to insure access to, and maintenance in, tier one care and reduce the risk of treatment failure or HIV transmission.
3. Develop and implement a system of service delivery that offers comprehensive, ongoing health and support services to individuals with HIV/AIDS, that actively seeks individuals who know their HIV status but are not accessing services, that reaches out to people who are HIV positive but unaware of their HIV status and that is coordinated with other service delivery systems, as appropriate.

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III. SCOPE OF REVIEW

The Financial Audit Branch's review consisted of two parts:

1. A review of the financial records to ensure the existence of proper documentation and propriety of claims submitted to the State for reimbursement for the fiscal year ended June 30, 2011.
2. A cursory review of compliance with contract and regulatory program requirements.

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IV. CONTRACT COMPLIANCE

The examination included a review to determine if COUNTY conducted the program in compliance with HIV CARE Program terms and conditions, and applicable regulatory requirements. The following is a summary of observations/findings relating to this section.

A. CONTRACT REQUIREMENTS

Subcontract:

FINDING: Subcontract Lacks Provisions Requiring Compliance with Applicable Terms and Conditions Contained in the State Agreement with COUNTY.

COUNTY entered into a subcontract to provide outpatient medical care in Del Norte County but did not provide the subcontractor with a copy of the agreement between the State and Del Norte County, and did not include provisions in the subcontract requiring compliance with the applicable terms and conditions specified by the State agreement with COUNTY, as required in the Agreement's Exhibit D (F), Part 5 g:

Subcontract Requirements: The Contractor shall ensure that all subcontracts for services include provisions requiring compliance with applicable terms and conditions specified in this Agreement.

As a result, the subcontractor was not informed as to State/County agreement provisions which were applicable to subcontractor activities.

RECOMMENDATION: COUNTY should include provisions in the subcontract requiring compliance with applicable terms and conditions specified in the State Agreement with COUNTY.

Service Delivery Plan:

The Agreement specifies that COUNTY: Develop and implement a system of service delivery that offers comprehensive, ongoing health and support services to individuals with HIV/AIDS, that actively seeks individuals who know their HIV status but are not accessing services, and that reaches out to people who are HIV positive but unaware of their HIV status and that is coordinated with other service delivery systems, as appropriate.

The service delivery plan was prepared by COUNTY and has been provided to the State Office of AIDS.

Quarterly Reports:

The Agreement requires the county to submit quarterly narrative and financial reports to OA. However, in this initial grant year, the State agreement with the county was not executed until February 28, 2011, and COUNTY submitted the required quarter one and two reports late (May 2011). The reports submitted for quarters three and four are considered timely.

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V. FISCAL FINDINGS

The following discusses the fiscal findings/observations of our review of the HIV Care Program. The line item expense amounts are included in Schedule A of this report.

Reimbursed Expenditures

Total program expenditures for FY 2010-11 were budgeted at \$36,777. This amount covered Personnel, Operating Expenses, Other Costs (subcontract), and Indirect Expenses.

There are variances between paid and audited amounts; total expenditures of \$26,386 were billed/paid; the audited expenditures are \$25,649, or \$737 less than the paid/reimbursed amount (See Schedule A).

The audit adjustment of \$737 made to paid amounts is the result of an erroneous salary charge to Personnel Expenses.

FINDING: COUNTY Procedures were Not Established to Ensure that Subcontractor Claimed Funds were Payer of Last Resort

The State agreement with COUNTY contains provisions concerning the use of HIV Care Program (HCP) funds, including Exhibit A-1, Part A. 21, which states: The Contractor shall:

Ensure that funds are payer of last resort by ensuring that client service providers bill all other third-party payers, including Medi-Cal, before invoicing HCP.

COUNTY however had not established procedures to ensure that subcontractor claimed funds were payer of last resort, and did not request a year-end cost schedule from the subcontractor to document that the HCP grant funds were payer of last resort. Background information, costs, and reimbursements are discussed below.

Subcontractor Health Facility: Del Norte Community Health Center in Crescent City is a federally qualified health center (FQHC). As such, applicable Medicare/Medi-Cal reimbursement rates were paid for services provided by the FQHC to qualified patients.

Invoiced Subcontractor Costs: The subcontractor invoiced COUNTY at \$200.00 per HIV client visit for Primary Medical Care, part of the HRSA category: Outpatient/ Ambulatory Medical Care (Outpatient). A total of 120 HIV client visits were invoiced in the fiscal year, to a contract maximum of \$23,706, the State allocated amount. The Medicare/Medi-Cal reimbursement rate for this period was approximately \$183.00 per visit. However, COUNTY did not request or receive information on the subcontractor's total Outpatient costs and applicable reimbursements; these items are discussed below.

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V. FISCAL FINDINGS

Reimbursed Subcontractor Costs: Subcontractor Medi-Cal records indicated that reimbursements due from Medicare/Medi-Cal for the 120 client visits totaled about \$22,000.

Also, as shown on the subcontractor's HIV Grant cost schedule, reimbursements of about \$10,600, not distributed to specific programs, were due from patients and other payers. For the Outpatient cost analysis below, the \$10,600 is included as a HCP reimbursement, for a total reimbursement of \$32,600.

Subcontractor HIV Grant Cost Schedule: This was prepared pursuant to our audit request and shows Outpatient expenses and other expenses attributable to HCP, plus patient/payer reimbursements not distributed to specific programs. However, the cost schedule does not include Medicare/Medi-Cal and patient/other payer reimbursements applicable to HCP; these amounts are included in the analysis below.

Analysis of HIV Grant Cost Schedule: Analysis shows that unreimbursed costs exceeded the invoiced costs of \$23,706 to COUNTY. Those costs are applicable to Outpatient/Ambulatory Medical Care, and should be reduced by Medicare/Medi-Cal and patient/payer reimbursements; the amounts (rounded) are detailed as follows:

Salaries & Benefits, Primary Medical Care	\$71,400
Laboratory HIV Testing	<u>2,500</u>
Total Outpatient Costs	73,900
Less Medicare/Medi-Cal, Patients/Payers	<u>-32,600</u>
Outpatient Costs - Unreimbursed	41,300
Less HCP Invoiced Costs to County	<u>-23,700</u>
Net Unreimbursed Costs	<u>\$17,600</u>

RECOMMENDATION: COUNTY should establish procedures, including a requirement that the subcontractor submit a year-end cost schedule to include actual Outpatient costs together with Medicare/Medi-Cal and patient/payer reimbursements, to document that HIV Care Program claimed funds are payer of last resort.

FINDING: Subcontractor's Total Activity Distribution to Programs Not Fully Documented

In response to our audit request for cost detail by program and activity, subcontractor prepared a HIV Grant cost schedule which showed each applicable employee's time/cost distribution, by full-time equivalent (FTE) percentage, to the HIV Care Program for the year, but did not account for the distribution of each employee's total activity (time/cost), pursuant to applicable documentation requirements.

Contract: The State agreement with the Del Norte County in Exhibit D (F) No. 7 a. states: "The Contractor and/or Subcontractor shall maintain books, records, documents, and other evidence, accounting procedures and practices, sufficient to properly reflect all direct and indirect costs of whatever nature claimed to have been incurred in the performance of this Agreement, including any matching costs and expenses."

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V. FISCAL FINDINGS

Additionally, salary and wage documentation requirements for charges to federal sub-award funded programs (sub-grants, subcontracts, etc.) are contained in federal OMB Circular A-122, Cost Principles for Non-Profit Organizations, which states in part in Appendix B, Items of Cost – No. 8 m. Support of Salaries and Wages:

1. The distribution of salaries and wages must be supported by personnel activity reports.
2. Reports reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, to federal award programs. Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:
 - a. The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates do not qualify as support for charges to awards.
 - b. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligation to the organization.
 - c. The reports must be signed by the individual employee, or by a responsible supervisory official.
 - d. The report must be prepared at least monthly and must coincide with one or more pay periods.

RECOMMENDATION: COUNTY should require the subcontractor to comply with the applicable provisions of federal OMB Circular A-122, Cost Principles for Non-Profit Organizations, particularly documentation requirements for support of salaries and wages.

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VI. SYSTEMS AND PROCEDURES

The management of COUNTY is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We have not made a study and evaluation of the contractor's system of internal accounting controls due to the limited scope detailed in Section III of this report. As a result, our Limited Contract Expenditure Review placed no reliance on the internal control system. The review was performed by expanding substantive tests to ensure the fair presentation of program costs.

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VII. SCHEDULES

A schedule of financial data has been included in this report to summarize the amounts claimed/paid under the contractual agreement. There are adjustments to the paid amounts.

SCHEDULE A

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Summary of Audited Contract Expenditures

(1)	(2)	(3)	(4)	(5)
Budgeted Categories	Contract Amount	Paid Amount	Audited Expense	Amount Due State (3)-(4)
				Sch. A-1
Personnel Expenses	\$ 9,656	\$ 1,929	\$ 1,192	\$ 737
Operating Expenses	682	179	179	-0-
Other Costs	25,545	23,706	23,706	-0-
Indirect Expenses	894	572	572	-0-
Total Expenditures	<u>\$ 36,777</u>	<u>\$ 26,386</u>	<u>\$ 25,649</u>	<u>\$ 737</u>

Contractor Name				Fiscal Period		Contract Number		Adjustments
County of Del Norte				July 1, 2010 to June 30, 2011		Agreement No. 10-95255		2
Report References				Program		As Paid/ Reimbursed	Increase (Decrease)	As Audited
Adj. No.	Audit Report		Invoice or Claim		Explanation of Audit Adjustments			
	Schedule	Line	Form #	Line				
1	A	1			Personnel Expenses	\$1,929	(\$737)	\$1,192
2	A	Total			Total Expenditures	\$26,386	(\$737)	\$25,649
<p>To eliminate an erroneous salary charge on the 4th quarter invoice and adjust paid expenses to actual expenses, pursuant to Grant Agreement Exhibit B, Provision 7: Expense Allowability.</p>								