



# Mental Health Systems

## Audit Report

*June 7, 2017*



INTERNAL AUDIT DIVISION  
SANTA BARBARA COUNTY AUDITOR-CONTROLLER

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- Attachment A –Behavioral Wellness Response to Audit Report**
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# Overview

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## **Introduction**

The Internal Audit Division of the Auditor-Controller's Office performed an audit of the County of Santa Barbara (the County) contracts with Mental Health Systems (MHS), a County vendor. Our work was limited to the area specified in the Objectives and Scope section of this report. We believe the evidence we obtained provides a reasonable basis for the findings in this report.

## **Objectives and Scope**

The objective of our audit was to determine whether amounts were appropriately billed and paid within the terms and conditions of the MHS contracts and other applicable rules. Our scope was limited to programs administered by MHS in the County from July 1, 2014 to April 30, 2016. The contracts were made with the Department of Behavioral Wellness (Behavioral Wellness).

Our audit was limited to certain documents and reports that support MHS's costs and adherence with the terms of its contracts during the years under audit. Our audit included inquiry of Behavioral Wellness and MHS staff, review of the contracts, cost support, and analysis of financial information. We did not test or evaluate the quality of MHS's services as part of our audit.

## **Background**

MHS is a California nonprofit corporation that specializes in providing substance abuse and mental health services for individuals throughout various counties in California. Behavioral Wellness held contracts with MHS since 2004. During the audit period, Behavioral Wellness held a cost-reimbursement agreement with MHS to provide the following programs:

- Santa Maria Center for Change - Outpatient alcohol and other drug counseling and treatment in Santa Maria
- Santa Maria Center for Change - Recovery Oriented System of Care - Peer supported self-help groups to clients waiting to enter treatment programs
- Veterans Entering Treatment Services - Mental health and substance abuse treatment to veterans
- Early Detection Program - Detection and prevention services to transition-age youth aged 16-24 individuals
- New Heights - Assist clients aged 18-24 transition into adult mental health services

Behavioral Wellness paid MHS \$955,432 and \$679,525 during fiscal years 2014-15 and 2015-16, respectively.

# Overview

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In May 2016, Behavioral Wellness received notice that the MHS Santa Maria office would be closed as of 7/1/16. As a result, Behavioral Wellness sent a letter to MHS stating that they would not renew their contract with MHS for services after fiscal year 2015-16.

## **Conclusion**

We noted opportunities for Behavioral Wellness to improve its contract monitoring. As part of this, Behavioral Wellness should review payments including invoices and canceled checks as well as staffing reports made by contractors to periodically ensure reimbursement payments are being made for expenses actually paid and staff actually working on County programs. We also recommend that Behavioral Wellness determine whether \$48,904 should be recouped from MHS for the following: retirement charges not paid within the required time period, items purchased by MHS and reimbursed by the County but not obtained, and inappropriate indirect costs charged to the County.

# Findings and Recommendations

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## ***Finding 1 – Questioned Costs***

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We found the following instances where MHS may have billed the County for costs outside of the terms and provisions of its contract:

- **Retirement costs:** Behavioral Wellness reimbursed \$26,657 of retirement costs for MHS employees although MHS did not make their 2014-15 retirement contribution by the deadline set forth in Federal Cost Principles.
- **Employee reimbursements:** Behavioral Wellness reimbursed MHS \$18,640 for purchases made by an MHS employee from July 1, 2014 through April 30, 2016. The business purpose of these items is unclear and these items were not obtained by Behavioral Wellness after the Santa Maria MHS office closure.
- **Indirect costs:** We noted unallowable costs for idle facilities and consultants were included in the indirect cost calculation. This resulted in approximately \$3,607 that was inappropriately charged to the County.

**Recommendation:** Behavioral Wellness should determine any required repayment from MHS. In its determination Behavioral Wellness should consider that, under some circumstances, retirement costs can be claimed in future years if funding is available.

## ***Finding 2 – Timeliness of Payments***

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Out of 153 direct expense transactions sampled during fiscal years 2014-15 and 2015-16 there were 41 payments totaling \$62,201 made by MHS that cleared MHS's bank account more than 30 days after the transaction date in the general ledger. Additionally, there were three payments totaling \$5,250 which cleared MHS's bank account more than 60 days after the general ledger transaction date. Held checks can indicate that reimbursements were made for items or services that were not paid for by MHS. However, all items selected for testing appear to have ultimately been paid.

**Recommendation:** Behavioral Wellness should periodically review claims and verify supporting documentation to determine whether the amount requested for reimbursement has actually been paid.

## ***Finding 3 – Behavioral Wellness Contract Monitoring***

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During our audit, we identified areas for improvement over contract monitoring by Behavioral Wellness. We noted that Behavioral Wellness did not confirm that employees charged to the County actually worked in the program specified. Behavioral Wellness also did not perform a detailed review of the indirect cost rate calculation for accuracy.

# Findings and Recommendations

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**Recommendation:** Behavioral Wellness should perform a reconciliation of the staffing reports and the list of staff charged to County programs. If differences are identified during the reconciliation, Behavioral Wellness should inquire with the vendor about these. Behavioral Wellness should also conduct a thorough review of contractor's indirect cost rates to ensure the rate is appropriate and is calculated properly.

# Acknowledgements

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The responses from Behavioral Wellness and Mental Health Systems to the findings and recommendations in this report, as well as any planned corrective actions, are presented as attachments to this report. We did not perform any audit procedures over Management's responses.

We appreciate the courtesy extended to us by Behavioral Wellness and Mental Health Systems staff. If we can be of further assistance, please contact us at (805) 568-2100.

Respectfully Submitted,



Heather Fletcher, CPA  
Audit Manager



SANTA BARBARA COUNTY  
DEPARTMENT OF  
**Behavioral Wellness**  
A System of Care and Recovery

Alice Gleghorn, PhD  
Director

Heather Fletcher, C.P.A.  
Audit Manager  
Office of the Auditor-Controller  
105 E. Anapamu St, Room 303  
Santa Barbara, CA 93101

RE: Mental Health Systems Audit Management Response

Dear Ms. Fletcher:

We appreciate your review of Mental Health System's (MHS) contract with the County. Behavioral Wellness' responses to the audit report are as follows:

**Finding 1-Questioned Costs:**

Behavioral Wellness agrees with this finding and will obtain the audit workpapers to determine if there is a required repayment from MHS.

**Finding 2-Timeliness of Payment:**

Behavioral Wellness agrees with this finding. The Department did not have adequate staff resources to perform detailed audits of contractor costs during the period examined. A year-end financial review of this contractor was performed; however this did not include requesting checks to support expenses which is an audit procedure. We anticipate that a vacant fiscal position will be filled in July 2017 which should allow the Department to enhance contract monitoring procedures, including rotating audits.

**Finding 3-Behavioral Wellness Contract Monitoring:**

Behavioral Wellness partially agrees with this finding.

In reference to employee costs, the Department will implement procedures in contractor audits to reconcile payroll reports with staffing schedules to ensure that employees are charged to the correct program and in accordance with contract requirements. Currently, the department compares actual payroll costs to budgeted payroll costs and performs additional testing as deemed necessary.

In reference to indirect cost reviews, the Department currently obtains and reviews indirect cost calculations from contractors at their year-end cost settlement but only audits or requests additional support when there are issues with the calculation. In this particular case, the department reviewed MHS indirect cost calculation but did not identify any potential issues with the calculation that warranted a detailed audit.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Alice A. Gleghorn', with a long horizontal line extending to the right.

Alice A. Gleghorn, Ph.D.  
Director



June 6, 2017

County of Santa Barbara  
Auditor-Controller's Office  
ATTN: Andrea Geis, CPA  
105 E. Anapamu Street, #303  
Santa Barbara, CA 93101

RE: Mental Health Systems audit of contract, July 1, 2014 to April 30, 2016

Dear Ms. Geis,

This letter is to serve as a response to the draft audit report dated May 2017.

Finding #1

- Retirement Costs: The funding of Mental Health Systems' (MHS) Profit Sharing Plan was late due to an administrative error with the Plan trustee. The funding did occur approximately 30 days after the deadline. The new leadership at MHS has been unsatisfied with the current trustee and recordkeeper, and is currently in the process of transitioning to a new service provider who will provide trustee, recordkeeping and administrative services to the Plan.
- Employee Reimbursements: Unfortunately since the program is now closed and the employee is no longer employed by MHS, we cannot further substantiate these expenses.
- Indirect Costs: We agree with this finding.

Finding #2

- MHS has a new executive leadership team, with a new CEO starting in AUG 2016 and a new CFO starting in JAN 2017. With new leadership, many fiscal processes have been improved upon, including the discontinuance of holding checks. This practice is now prohibited.

Thank you for the opportunity to comment on the findings in the draft audit report.

Sincerely,



Stacy Maxa, CPA  
Chief Financial Officer