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April 8, 2026

TO: Barbara Ferrer, Ph.D., M.P.H., M.Ed., Director
Department of Public Health

FROM: Steven Lee, Chief Investigator
Office of County Investigations

SUBJECT: DEPARTMENT OF PUBLIC HEALTH – IMPROVEMENT OPPORTUNITIES NOTED
DURING LIMITED REVIEW (REPORT #IOR-2018-14884) – FIRST AND FINAL
FOLLOW-UP REVIEW

We completed a follow-up review of our Department of Public Health (DPH) Improvement Opportunities Report dated August 18, 2021 (Report #IOR-2018-14884). As summarized in Table 1, DPH fully implemented two recommendations to strengthen controls and help detect fraud that may exist in client billings from contracted service providers.

Table 1 - Results of First and Final Follow-up Review

Table with 5 columns: PRIORITY RANKINGS, TOTAL RECOS, FULLY IMPLEMENTED, PARTIALLY IMPLEMENTED, NOT IMPLEMENTED. Rows include PRIORITY 1, PRIORITY 2, PRIORITY 3, and TOTAL. A separate row shows 0 outstanding recommendations.

For details of our review and DPH's corrective actions, see Attachment. Since DPH implemented all recommendations, this is our first and final follow-up.

We thank DPH management and staff for their cooperation and assistance during our review. If you have any questions please contact me at (213) 893-0551 or slee2@auditor.lacounty.gov, or Supervising Investigator Graciela Soto at (213) 893-0552 or gsoto@auditor.lacounty.gov.

SL:GLS:MN:rk
F1-2018-14884

Attachment

c: Oscar Valdez, Auditor-Controller
Audit Committee
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OFFICE OF COUNTY INVESTIGATIONS

Report #F1-2018-14884

DEPARTMENT OF PUBLIC HEALTH
IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW (REPORT #IOR-2018-14884)
FIRST AND FINAL FOLLOW-UP REVIEW

RECOMMENDATION	A-C COMMENTS
<p>1 Priority 1 - Department of Public Health (DPH) Substance Abuse Prevention and Control (SAPC) Bureau management, in consultation with their Health Insurance Portability and Accountability Act privacy officer and County Counsel, clarify current monitoring procedures to ensure that they include direct client and service verification to obtain assurance that clients exist, are eligible, and received the services specified in the contract billing paid by the County. Verification should be made on a routine basis for a representative sample of service recipients from all Contracted Service Providers (Contractors) and should occur via a channel independent of the Contractor (i.e., the Contractor should not serve as an intermediary for distributing a survey to clients or returning client responses to SAPC).</p> <p>Impact: Increased risk that contract fraud and improper billings can occur and/or go undetected, resulting in County overpayments and/or losses.</p>	<p>Recommendation Status: Implemented</p> <p>SAPC revised its Master Audit Plan (Plan) in July 2021 to strengthen oversight of Contractors by enhancing guidance and monitoring procedures for contract monitoring staff. Specifically, the revised Plan requires monitoring staff to sample a minimum of seven clients per contract and contact clients directly to verify that services were received. The revised procedures also prohibit the use of Contractors as intermediaries when conducting client verification activities. According to SAPC, these procedures were implemented to strengthen monitoring practices and provide greater assurance that services billed under contract were actually delivered to program participants.</p> <p>SAPC further indicated that direct client service verification is subject to limitations under State confidentiality laws, which, according to County Counsel, restrict SAPC's ability to independently contact clients in certain circumstances. When permissible, the revised monitoring procedures require contract monitoring staff to conduct direct outreach to clients to verify that services were provided, thereby eliminating the use of Contractors as intermediaries in the verification process. As a result, we determined that SAPC implemented controls intended to provide greater assurance that services billed to the County were delivered.</p>
<p>2 Priority 2 - DPH SAPC management develop and implement a process to require that all Contractors submit periodic and timely reports of their costs to deliver County program services, regardless of whether or not the funding entity (e.g., the State) has released official cost report forms.</p> <p>Impact: Increased risk of providers inappropriately charging unallowable costs to DPH programs, resulting in County overpayments and/or losses, and an overall lack of accountability for contractor expenditures.</p>	<p>Recommendation Status: Implemented</p> <p>SAPC developed and implemented a process that requires all Contractors to submit periodic and timely reports of their costs to deliver County program services, regardless of whether or not the funding entity (e.g., the State) has released official cost report forms. Specifically, the State of California Department of Health Care Services (DHCS) issued Behavioral Health Information Notice No. 23-023 on June 1, 2023, which states that Drug Medi-Cal Contractors will no longer be required to reconcile costs for services conducted and expenses incurred on or after</p>

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

RECOMMENDATION	A-C COMMENTS
	<p>July 1, 2023. Additionally, Contractors are no longer required to submit DHCS-issued Cost Report(s) for these services effective July 1, 2023.</p> <p>In response to this change, SAPC issued Information Notice No. 23-10 on October 11, 2023, which established a fiscal reporting process applicable to SAPC's entire substance abuse service provider network. Specifically, this process enables SAPC to collect and review fiscal information from Contractors, maintain oversight of program expenditures despite the absence of state-mandated cost reporting requirements, while also meeting local funding requirements and reducing administrative burden.</p>

We conducted our review in conformance with the International Standards for the Professional Practice of Internal Auditing. For more information on our auditing process, including recommendation priority rankings, the follow-up process, and management's responsibility for internal controls, visit auditor.lacounty.gov/audit-process-information.

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.