

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**SOME OF CALIFORNIA'S SUBSTANCE
ABUSE PREVENTION AND TREATMENT
BLOCK GRANT EXPENDITURES FOR
LOS ANGELES COUNTY DID NOT
COMPLY WITH FEDERAL AND
STATE REQUIREMENTS**

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Report in Brief

Date: November 2023

Report No. A-09-21-01001

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Audit

In Federal fiscal year 2023, the Substance Abuse and Mental Health Services Administration (SAMHSA) allocated approximately \$3 billion to States under the Substance Use Prevention, Treatment, and Recovery Services Block Grant program (formerly the Substance Abuse Prevention and Treatment Block Grant (SABG) program). SABG grantees use the funds to plan, implement, and evaluate activities that prevent and treat substance use disorders, including opioid treatment services.

The United States currently faces a nationwide public health emergency due to the opioid crisis. As part of OIG's efforts to ensure the integrity and proper stewardship of grant funds used to combat this crisis, we performed this audit of California's SABG expenditures because a prior SAMHSA review identified inadequate procedures and documentation. Our objective was to determine whether California's SABG expenditures for Los Angeles County (LA County), including expenditures for transitional housing providers, complied with Federal and State requirements.

How OIG Did This Audit

Our audit covered \$80.6 million in SABG expenditures that LA County submitted to California for reimbursement for the period July 1, 2019, through June 30, 2020. We reviewed: (1) general ledger reports, (2) expenditures for well-being centers (i.e., school-based health centers), and (3) a judgmental sample of claims and expenditures.

Some of California's Substance Abuse Prevention and Treatment Block Grant Expenditures for Los Angeles County Did Not Comply With Federal and State Requirements

What OIG Found

Some of California's SABG expenditures for LA County, including expenditures for transitional housing providers, did not comply with Federal and State requirements. Specifically, LA County submitted for reimbursement approximately \$1.7 million in expenditures for transitional housing services that had been previously reimbursed. In addition, LA County providers submitted for reimbursement unallowable claims for transitional housing and treatment services. Finally, an LA County provider submitted for reimbursement invoices that included certain unallowable expenditures for prevention activities.

In addition, LA County may not have properly allocated certain SABG expenditures. Specifically, we identified a weakness in LA County's procedures that allocated all costs of the county's well-being centers to the SABG when they may not have been directly related to substance use disorders.

What OIG Recommends and California's Comments

We recommend that California: (1) recover from LA County \$1.7 million for transitional housing expenditures and establish a process to review whether counties, including LA County, were reimbursed for expenditures that had been previously reimbursed; and (2) instruct LA County to develop a cost allocation plan for its well-being centers, determine the portion of \$1.8 million that should not have been allocated to the SABG, and recover any overpayment. We also recommend that California work with LA County to: (1) develop a process to ensure that LA County's claims processing system does not pay transitional housing claims after an individual has been discharged from outpatient treatment, (2) provide clear guidance to providers on claiming and documenting treatment services, and (3) develop procedures for LA County's monitoring activities to identify whether providers are submitting invoices for reimbursement based on actual costs incurred.

California concurred with four of our five recommendations and provided information on corrective actions it planned to take. However, it did not concur with our recommendation related to our finding on unallowable claims for treatment services. After reviewing California's comments and related documentation, we revised our finding and revised our recommendation to state that California should work with LA County to provide clear guidance to providers on claiming and documenting treatment services.

TABLE OF CONTENTS

INTRODUCTION..... 1

 Why We Did This Audit..... 1

 Objective..... 1

 Background..... 2

 Substance Abuse Prevention and Treatment Block Grant Program 2

 The State Agency’s Administration of the Substance Abuse Prevention and Treatment Block Grant..... 2

 Los Angeles County’s Administration of the Substance Abuse Prevention and Treatment Block Grant..... 3

 State Agency and Los Angeles County Oversight of the Use of SABG Funds 4

 How We Conducted This Audit..... 5

FINDINGS..... 7

 Certain SABG Expenditures for Transitional Housing and Treatment Services and Prevention Activities for Los Angeles County Were Not Allowable 8

 Los Angeles County Submitted Certain Expenditures for Duplicate Reimbursement..... 8

 Three Los Angeles County Providers Submitted for Reimbursement Unallowable Claims for Transitional Housing Services 9

 Three Los Angeles County Providers Submitted for Reimbursement Unallowable Claims for Treatment Services 10

 One Los Angeles County Provider Submitted for Reimbursement Invoices That Included Certain Unallowable Expenditures for Prevention Activities 11

 Certain SABG Expenditures May Not Have Been Properly Allocated..... 12

CONCLUSION..... 13

RECOMMENDATIONS 14

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE 15

 State Agency Comments..... 15

 Office of Inspector General Response 16

APPENDICES

A: Audit Scope and Methodology 17

B: Related Office of Inspector General Reports..... 19

C: State Agency Comments..... 20

INTRODUCTION

WHY WE DID THIS AUDIT

In Federal fiscal year 2023, the Substance Abuse and Mental Health Services Administration (SAMHSA) allocated approximately \$3 billion to States, Territories, and one Indian Tribe under the Substance Use Prevention, Treatment, and Recovery Services Block Grant program (formerly the Substance Abuse Prevention and Treatment Block Grant (SABG) program).¹ SABG grantees use the funds to plan, implement, and evaluate activities that prevent and treat substance use disorders (SUDs), including opioid treatment services. Furthermore, the funds may be used for short-term support for temporary housing, including payments for room and board for individuals in transitional housing.² In California, the Department of Health Care Services (State agency) administers SABG funds and is responsible for complying with applicable Federal grant requirements.

The United States currently faces a nationwide public health emergency due to the opioid crisis.³ As part of the Office of Inspector General's efforts to ensure the integrity and proper stewardship of grant funds used to combat the opioid crisis, we are performing several audits that examine SABG expenditures, including expenditures for contracted transitional housing providers. This report examines California's SABG expenditures. A prior review conducted by SAMHSA identified inadequate accounting procedures and inadequate documentation to support California's SABG expenditures. For this audit, we selected Los Angeles County, which received the most SABG funding (approximately \$80.6 million) among 58 counties in California from July 1, 2019, through June 30, 2020 (audit period). For Los Angeles County, the State agency contracts with the county's Department of Public Health to use SABG funds to plan, carry out, and evaluate activities to prevent and treat SUDs. In this report, we refer to Los Angeles County's Department of Public Health as "LA County."

OBJECTIVE

Our objective was to determine whether the State agency's SABG expenditures for LA County, including expenditures for transitional housing providers, complied with Federal and State requirements.

¹ As of Jan. 3, 2022, the SABG program is called the Substance Use Prevention, Treatment, and Recovery Services Block Grant program. Because our audit period was July 1, 2019, through June 30, 2020, we refer to the program as "SABG" throughout this report.

² Transitional housing is a type of abstinence-focused, peer-supported housing that provides a safe interim living environment for individuals who are homeless or unstably housed.

³ The public health emergency was declared by then Acting Secretary of the Department of Health and Human Services Eric Hargan on Oct. 26, 2017, and renewed by Secretary Xavier Becerra on Apr. 1, 2023.

BACKGROUND

Substance Abuse Prevention and Treatment Block Grant Program

SAMHSA's SABG program is authorized by section 1921 of Title XIX, part B, subparts II and III, of the Public Health Service Act. The SABG program provides funds to all 50 States, the District of Columbia, U.S. Territories, and 1 Indian Tribe (i.e., SABG grantees) to help plan, implement, and evaluate activities that prevent and treat SUDs. SAMHSA awards SABG funds annually, and the funds are available for obligation and expenditure for a 2-year period.

Each SABG grantee must: (1) have a designated unit that is responsible for administering the SABG, (2) apply annually for SABG funds, (3) have the flexibility to distribute the SABG funds to local government entities (e.g., counties), (4) have SABG subrecipients (e.g., community-based organizations), and (5) deliver substance abuse prevention activities and treatment and recovery support services to individuals and communities impacted by SUDs.⁴

The State Agency's Administration of the Substance Abuse Prevention and Treatment Block Grant

In California, the State agency is responsible for applying to SAMHSA for SABG funds and administering the SABG program. The State agency acts as a pass-through entity to provide SABG funds to local governments (i.e., California's 58 counties).⁵ The State agency considers counties and those providers that furnish SABG-funded SUD services as subrecipients of the SABG. All subrecipients are required to assume the obligations pertaining to the SABG (i.e., adhering to all Federal statutes and implementing Federal and State regulations and the State's policies and procedures).

According to the State agency, it chose to govern its SABG subrecipients using all sections of 45 CFR part 75, which includes regulations requiring that costs be necessary, reasonable, and allocable to Federal awards, as well as adequately documented (45 CFR § 75.403). In addition, under California's SABG program, counties may cover the costs of room and board to provide transitional housing as an essential support service for individuals with SUDs. Each county is instructed to develop guidelines for its transitional housing providers and to provide monitoring and oversight of these providers.⁶

⁴ <https://www.samhsa.gov/grants/block-grants/sabg>. Accessed on Mar. 22, 2023.

⁵ A pass-through entity is a non-Federal entity that provides a subaward to a subrecipient to carry out part of a Federal program.

⁶ The State agency's "MHSUDS [Mental Health and Substance Use Disorder Services] Information Notice 18-058," Dec. 17, 2018.

Los Angeles County's Administration of the Substance Abuse Prevention and Treatment Block Grant

For LA County, the State agency contracts with the county's Department of Public Health to use SABG funds to plan, carry out, and evaluate activities to prevent and treat SUDs. Within the Department of Public Health, the Substance Abuse Prevention and Control (SAPC) Division is responsible for overseeing SUD prevention and treatment funds from multiple sources, including the SABG. Furthermore, LA County contracts with providers to deliver treatment services and transitional housing services and to perform prevention and other activities related to the SABG program.^{7, 8}

To be reimbursed for SABG expenditures, LA County submits to the State agency quarterly Federal financial management reports and general ledger reports. The general ledger reports include expenditures by provider, service code, and program code.⁹ LA County also submits a cost report for SUD-related services to the State agency each year. The State agency uses the cost report to compare and reconcile the amount of funds that it paid to the county with the actual costs of providing those services.

To be reimbursed for SABG expenditures, providers submit claims for treatment and transitional housing services through LA County's claims processing system (i.e., Sage).¹⁰ The county determines whether a claim should be entirely or partially funded by the SABG. In addition, providers submit to the county hardcopy monthly invoices to be reimbursed for expenditures for prevention and other activities.

The figure on the following page describes how the SABG program is administered by the State agency and LA County.

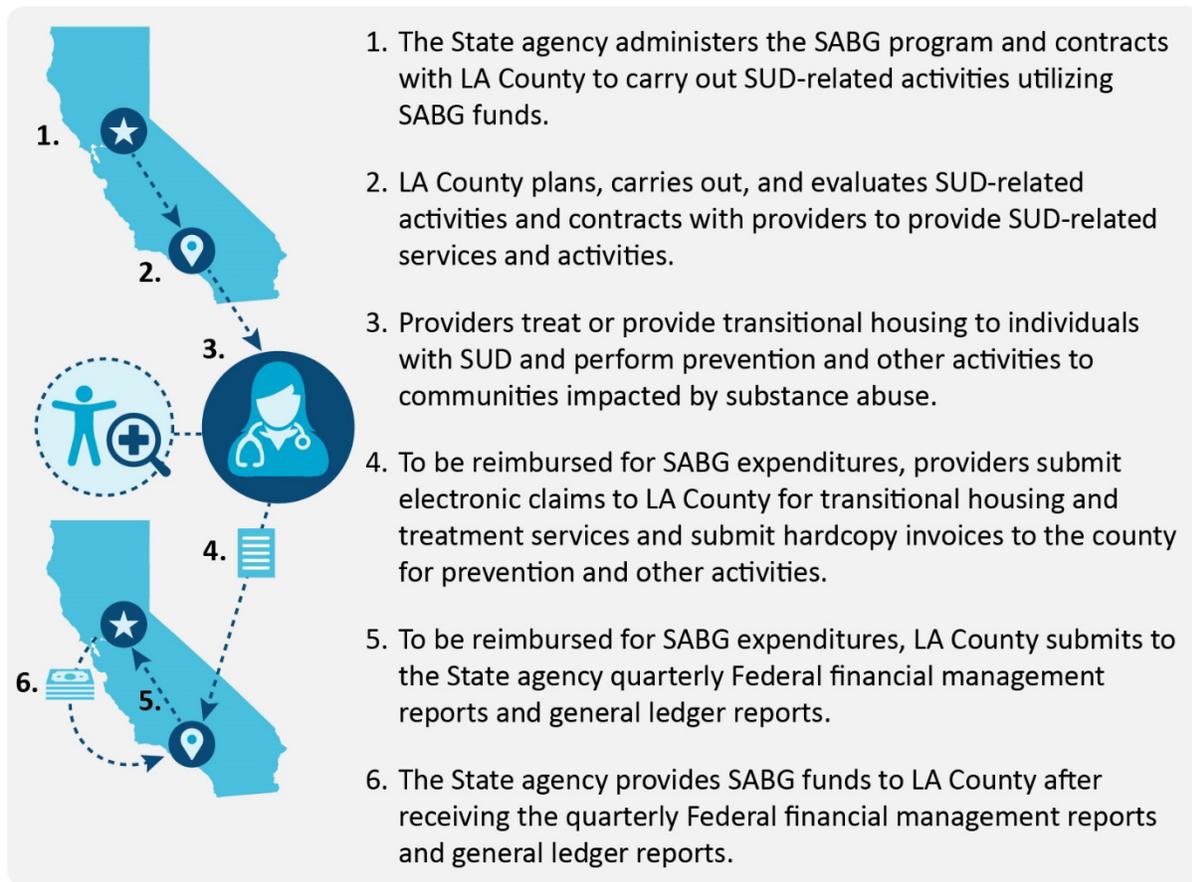
⁷ LA County refers to transitional housing as "recovery bridge housing," which is a type of abstinence-based, peer-supported housing. The services provided vary and include peer support, group and house meetings, self-help, and life skills development, among other recovery-oriented services. Individuals in recovery bridge housing must be receiving concurrent treatment in outpatient, intensive outpatient, opioid treatment program, or outpatient withdrawal management settings. Treatment services may not be provided in recovery bridge housing.

⁸ Other activities related to the SABG program include support services (e.g., administrative, management, and support functions) and ancillary services (e.g., perinatal medical care).

⁹ The service code indicates the type of expenditure (e.g., code 91 for outpatient treatment). The program code indicates the targeted population for which expenditures were used (e.g., code 3 for the perinatal program).

¹⁰ Sage is LA County's SUD Information System, which includes functions such as data collection and claims processing. All treatment providers that have contracted with the county use Sage as their primary electronic health record system or use their own electronic health record to interface with Sage.

Figure: Administration of the Substance Abuse Prevention and Treatment Block Grant by the State Agency and Los Angeles County



State Agency and Los Angeles County Oversight of the Use of SABG Funds

The State Agency’s Oversight of Los Angeles County

The State agency’s Federal Grants Branch reviews LA County’s quarterly general ledger reports for completeness and critical errors, such as ensuring that the county’s SABG expenditures do not exceed its allocation for the State fiscal year (SFY) (July 1 through June 30) and that service codes are valid. If corrections are needed, the State agency returns general ledger reports to the county for revisions. Further, the State agency’s Audits and Investigations Division reviews LA County’s cost reports, including cost allocation methods.

Los Angeles County’s Oversight of Providers

As a part of the oversight process, LA County conducts both programmatic and fiscal reviews of SABG-funded SUD providers to ensure their compliance with contract requirements.

- For programmatic reviews, the SAPC Division uses a “monitoring billing tool” and a “monitoring tool.” Both tools are fillable forms that county staff use to record providers’ compliance in specific areas. The monitoring billing tool is used by county staff to record whether billed services were provided (e.g., if a provider furnished an individual counseling service that was billed).¹¹ The monitoring tool is used by county staff to verify that providers are complying with programmatic requirements (e.g., to verify whether patient progress notes contain the counselor’s signature).
- For fiscal reviews, the SAPC Division contracts with the Los Angeles County Auditor-Controller office. The purpose of these fiscal reviews is to ensure provider compliance with accounting, internal control, and financial reporting standards.

HOW WE CONDUCTED THIS AUDIT

Our audit covered SABG expenditures that LA County submitted to the State agency for reimbursement for the period July 1, 2019, through June 30, 2020, which is SFY 2019–2020. For our audit period, LA County submitted \$80.6 million in expenditures for transitional housing and treatment services and for prevention and other activities.

For the purposes of our audit, we categorized LA County’s SABG expenditures into four types. Table 1 shows the number of providers and SABG reimbursement for each category of expenditures.

Table 1: Number of Providers and SABG Reimbursement per Expenditure Category

Expenditure Category	Number of Providers [†]	SABG Reimbursement
Transitional Housing	19	\$3,967,038
Treatment Services	65	30,183,966
Prevention	39	22,084,742
Other Activities*	18	24,412,102
Total	94	\$80,647,848

* Other activities related to the SABG program consisted of support services (e.g., administrative, management, and support functions) and ancillary services (e.g., perinatal medical care).

[†] There were 94 unique providers in LA County that received SABG funding during our audit period. Some of these providers may have performed services related to multiple expenditure categories.

After categorizing the expenditures into four types, for the transitional housing and treatment service expenditures reported on LA County’s general ledger reports totaling \$34.2 million, we compared and reconciled the expenditures with documentation supporting those expenditures

¹¹ Individual counseling services are designed to support direct communication and dialogue between the provider and patient and focus on psychosocial issues related to substance use and goals outlined in the patient’s individualized treatment plan.

(e.g., the county’s reports summarizing claims data from Sage).¹² In addition, we reviewed expenditures for certain other activities (i.e., support services), including expenditures for well-being centers totaling \$1.8 million, by examining supporting documentation (e.g., training materials and meeting agendas).¹³

We then selected a judgmental sample of 80 SABG claims or expenditures submitted by LA County for reimbursement during our audit period. Specifically, we judgmentally selected from Sage 46 claims for transitional housing or treatment services and judgmentally selected 34 expenditures included in LA County’s hardcopy monthly invoices for prevention or other activities, totaling \$153,017, and reviewed supporting documentation.¹⁴ Table 2 shows the number of providers, number of claims or invoice expenditures, and amount of SABG reimbursement for each category of expenditures that we reviewed.

Table 2: Number of Providers, Claims or Invoice Expenditures, and SABG Reimbursement Per Expenditure Category That We Reviewed

Expenditure Category	Number of Providers That We Reviewed	Number of Claims or Invoice Expenditures That We Reviewed	SABG Reimbursement That We Reviewed
Transitional Housing	5	14	\$329
Treatment Services	6	32	4,981
Prevention	6	24	83,608
Other Activities	3	10	64,099
Total	20	80	\$153,017

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A describes our audit scope and methodology, and Appendix B lists related Office of Inspector General reports on SUD and opioid treatment grants as well as opioid treatment programs.

¹² We were not able to compare and reconcile the total prevention and other activities expenditures because they were reported in hardcopy invoices that could not be electronically analyzed.

¹³ LA County’s well-being centers were school-based health centers available to students at 50 public high school campuses across the county.

¹⁴ The treatment-related services that we reviewed consisted of case management, individual counseling, long-term residential treatment, and lodging (per diem).

FINDINGS

Some of the State agency's SABG expenditures for LA County, including expenditures for transitional housing providers, did not comply with Federal and State requirements. Specifically, certain SABG expenditures for transitional housing and treatment services and prevention activities were not allowable:

- LA County submitted for reimbursement a general ledger report that included \$1,681,964 in expenditures for transitional housing services that had been previously reimbursed (i.e., submitted certain expenditures for duplicate reimbursement).
- Three LA County providers submitted for reimbursement unallowable claims for transitional housing services. For example, providers did not have documentation to support that four individuals stayed in transitional housing on the date of the service.
- Three LA County providers submitted for reimbursement unallowable claims for treatment services (i.e., case management services).¹⁵ For example, a provider did not have any supporting documentation that an individual received case management services.
- One LA County provider submitted for reimbursement invoices that included certain unallowable expenditures for prevention activities. For example, in the cost allocation methodology for payroll, the provider used budgeted costs rather than actual costs incurred.

At the county level, these deficiencies occurred because LA County: (1) made an error when submitting expenditures to the State agency for transitional housing services, (2) lacked specific requirements and a process to ensure that transitional housing claims submitted by providers were allowable, (3) lacked clear guidance for providers on claiming and documenting treatment services, and (4) did not identify or resolve issues related to prevention expenditures included in invoices through its monitoring activities.

At the State level, although the State agency had a process to review quarterly expenditures submitted by counties, including Los Angeles County, that review was limited to checking quarterly Federal financial management reports and general ledger reports for completeness and critical errors (e.g., checking that expenditures did not exceed a county's allocated funding for the fiscal year). Furthermore, because the State agency had not reviewed LA County's cost reports for SFY 2019–2020 at the time of our audit, the State agency did not identify that LA County improperly submitted for reimbursement transitional housing expenditures that had been previously reimbursed.

¹⁵ Case management services involve integration and coordination of all necessary services to ensure successful treatment and recovery. Services may include outreach, intake, assessment, monitoring and evaluation of progress, and referral to community resources.

In addition, LA County may not have properly allocated certain SABG expenditures. Specifically, we identified a weakness in LA County's allocation procedures that allocated all costs of the county's well-being centers to the SABG. The county allocated all of these expenditures to the SABG when certain expenditures of the well-being centers may not have been directly related to SUDs.

As a result of these deficiencies and the weakness we identified, the State agency reimbursed or may have reimbursed LA County for unallowable SABG expenditures, and LA County reimbursed or may have reimbursed its providers for unallowable claims and expenditures. If SABG funds were used to reimburse unallowable expenditures, the funds may not have been available for preventing substance misuse or treating individuals with SUDs.

CERTAIN SABG EXPENDITURES FOR TRANSITIONAL HOUSING AND TREATMENT SERVICES AND PREVENTION ACTIVITIES FOR LOS ANGELES COUNTY WERE NOT ALLOWABLE

Certain SABG expenditures for transitional housing and treatment services and prevention activities for LA County were not allowable. Specifically, (1) LA County submitted for reimbursement a general ledger report that included expenditures for transitional housing services that had been previously reimbursed (i.e., submitted certain expenditures for duplicate reimbursement); (2) LA County providers submitted for reimbursement unallowable claims for transitional housing services; (3) LA County providers submitted for reimbursement unallowable claims for treatment services; and (4) one LA County provider submitted for reimbursement invoices that included certain unallowable expenditures for prevention activities.

Los Angeles County Submitted Certain Expenditures for Duplicate Reimbursement

Federal regulations require that costs be necessary, reasonable, and allocable to Federal awards, as well as adequately documented (45 CFR § 75.403). Specifically, a cost is allowable only if it is adequately documented (45 CFR § 75.403(g)).

LA County submitted to the State agency for reimbursement a general ledger report that included \$1,681,964 for transitional housing services that had been previously reimbursed. The county reported a total of \$3,967,038 for transitional housing services on the quarterly Federal financial management reports and general ledger reports for SFY 2019–2020. However, for the fourth quarter of SFY 2019–2020, the county did not have support for \$1,681,964 in transitional housing services that it reported. Therefore, the county should have reported a total of \$2,285,074 for transitional housing services on the management reports and general ledger reports for SFY 2019–2020.

According to LA County, it erroneously included previously submitted transitional housing expenditures of \$1,681,964 on the quarterly Federal financial management report and general

ledger report for the fourth quarter of SFY 2019–2020. LA County officials stated that they would resolve the error when submitting a cost report for that SFY.¹⁶

Although the State agency had a process to review quarterly expenditures that LA County submitted, the review was limited to checking for completeness and critical errors (e.g., checking that expenditures did not exceed the county’s allocated funding for the SFY). In addition, at the time of our audit, the cost report review had not been performed for SFY 2019–2020; therefore, the State agency did not identify that the county improperly submitted for reimbursement transitional housing expenditures that had been previously reimbursed.

Three Los Angeles County Providers Submitted for Reimbursement Unallowable Claims for Transitional Housing Services

LA County’s *Substance Use Disorder Treatment Services Provider Manual* (County Provider Manual) states that the core goal of recovery bridge housing (i.e., transitional housing) is to provide a safe living space that is supportive of recovery for individuals who are receiving outpatient treatment for their SUD (version 4.0, December 2018, issued by SAPC).

The County Provider Manual states that individuals in transitional housing must be concurrently in outpatient treatment and individuals who are discharged from outpatient treatment will no longer be eligible to receive reimbursement for transitional housing. Furthermore, the County Provider Manual stated that when individuals complete their stay or stop receiving the benefit, the transitional housing provider will complete the transitional housing discharge form for each individual and submit it to SAPC on the day of discharge.

Three LA County providers submitted for reimbursement seven unallowable claims for transitional housing services.¹⁷ Specifically:

- For six claims, providers did not have documentation supporting that four individuals stayed in transitional housing on the date of service of the claim (e.g., a sign-in sheet).¹⁸
- For one claim, the provider had documentation showing that the individual had been discharged from the outpatient treatment program and was not concurrently receiving outpatient treatment on the date of service of the claim for transitional housing.

¹⁶ According to LA County officials, as of Aug. 7, 2023, the county had not submitted its cost report for SFY 2019–2020 because it had not received the final cost report template from the State agency.

¹⁷ The 7 claims totaled \$233 (of \$329 for the 14 claims that we reviewed).

¹⁸ LA County had documentation to support that the individuals were approved and authorized for transitional housing services.

According to LA County officials, although the statement of work in LA County's contracts with transitional housing providers included general documentation requirements, such as requiring that providers keep accurate and complete records of their activities and operations related to providing services, the contracts did not include a specific requirement for providers to document individuals' daily stays in transitional housing.¹⁹

Furthermore, although LA County had a process when approving and authorizing transitional housing services to check whether an individual met the requirement to be concurrently in outpatient treatment, LA County officials stated that: (1) the county did not have a process to update its claims processing system when an individual was discharged from outpatient treatment unless the provider notified the county, and (2) the county expected transitional housing providers not to bill for individuals who had been discharged.²⁰

Three Los Angeles County Providers Submitted for Reimbursement Unallowable Claims for Treatment Services

Federal regulations require that costs be necessary, reasonable, and allocable to Federal awards, as well as adequately documented (45 CFR § 75.403). Specifically, a cost is allowable only if it is adequately documented (45 CFR § 75.403(g)). The County Provider Manual states that although providers are expected to document case management activities in miscellaneous notes, the time spent documenting these activities (i.e., documentation time) is nonbillable.²¹

Three LA County providers submitted for reimbursement five unallowable claims for treatment services, i.e., case management services.^{22, 23} The five case management claims were for 34 service units, of which 12 service units were not allowable. Specifically, for 5 of the 12 service units, the provider did not furnish any supporting documentation that it provided the

¹⁹ In September 2022, LA County updated the County Provider Manual to specify that transitional housing providers must submit required information and supporting documentation, such as daily participant sign-in and sign-out logs, when requested by the county.

²⁰ According to LA County officials, the county was developing an outpatient treatment discharge report to help the county monitor admissions and discharges of individuals in outpatient treatment. The officials stated that the discharge report would allow the county to update the authorization date for transitional housing services if an individual was discharged from outpatient treatment before the end of the initial authorization period. According to county officials, as of Aug. 7, 2023, they planned to create and issue the discharge report within 6 months.

²¹ County Provider Manual, version 4.0, December 2018.

²² Claims for case management services are billed in 15-minute increments. Each 15-minute increment is billed as a single service unit. LA County officials stated that an additional service unit for documentation time is billed at the same rate as the service.

²³ The 5 claims totaled \$1,181 (of \$4,981 for the 32 claims that we reviewed).

case management service to the individual.²⁴ For the remaining 7 service units, providers claimed nonbillable time documenting case management services furnished to individuals.

Although the County Provider Manual states that billing for case management documentation time is nonbillable, LA County issued additional guidance that was unclear to providers. One provider stated that its understanding was that LA County’s SAPC Information Notice 19-03 allowed providers to bill documentation time for case management services.²⁵ Another provider stated that its understanding was that SAPC’s “Finance and Rates FY 2019–2022” (published on June 17, 2019) allowed providers to bill documentation time for case management services. A third provider stated that SAPC advised them not to bill for documentation time for case management activities; regardless, the provider still billed for documentation time and did not explain why. According to LA County officials, they would consider revising the county policy to allow providers to bill for the time spent documenting case management services.

One Los Angeles County Provider Submitted for Reimbursement Invoices That Included Certain Unallowable Expenditures for Prevention Activities

The contract between LA County and a provider stated that the provider will be reimbursed for actual costs incurred and that the provider shall bill the county monthly in arrears.²⁶

One LA County provider submitted to the county invoices for SUD prevention activities that included three unallowable expenditures for reimbursement.²⁷ The provider did not bill LA County for certain expenditures based on actual costs incurred, as required in its contract with LA County. Specifically:

- The provider submitted invoices that included two expenditures totaling \$3,923 for salaries, which was a portion of the three program directors’ total salaries at two different locations. When submitting these invoices, the provider allocated \$3,923 in salaries by applying percentages based on budgeted salary costs instead of actual salary

²⁴ This provider did not explain why supporting documentation was missing.

²⁵ LA County’s SAPC Information Notice 19-03, dated August 8, 2019, states that, for documentation time to be allowable, the time spent documenting service delivery must be included in a progress note or a miscellaneous note in addition to the time spent conducting the face-to-face service. However, this notice was for SUD treatment services covered and reimbursed under the Drug Medi-Cal Organized Delivery System (DMC-ODS).

²⁶ Billing in arrears (also referred to as “invoicing in arrears”) refers to billing and payments that occur after a service is completed rather than before the service is provided.

²⁷ The 3 expenditures totaled \$5,923 (of \$80,608 for the 24 expenditures that we reviewed).

costs incurred.²⁸ According to the provider, it had been using budgeted costs for payroll allocation for 15 years.

- The provider submitted an invoice that included \$2,000 for consulting fees for July 2019 when the consultant had performed no work during that month.²⁹ The provider did not have any support for this expenditure. The provider stated that it no longer employed the individual who prepared the invoice, and the provider did not know why that person made the decision to include the consulting fees in the invoice.

LA County's monitoring activities did not include procedures to identify or resolve issues related to prevention expenditures to ensure that the provider adhered to the contract terms specifying that submitted invoices for reimbursement be based on actual costs incurred. For example, the monitoring billing tool and the monitoring tool used for LA County's programmatic reviews did not include an instruction to check whether the costs claimed for reimbursement were based on the actual costs.

CERTAIN SUBSTANCE ABUSE PREVENTION AND TREATMENT BLOCK GRANT EXPENDITURES MAY NOT HAVE BEEN PROPERLY ALLOCATED

Federal law (42 U.S.C. § 300x-21(b)) says that a State will expend the SABG only for the purpose of planning, carrying out, and evaluating activities to prevent and treat SUDs and for related activities authorized in section 300x-24 (e.g., for counseling, testing, and treatment of tuberculosis and early intervention services for HIV). According to the State agency, it interpreted this provision to mean that preventive services include only those primarily aimed at preventing SUD. In addition, Federal regulations (45 CFR § 75.403) require that costs be necessary, reasonable, and allocable to Federal awards, as well as adequately documented. The regulations (45 CFR § 75.405(a)) also state that a cost is allocable to a particular Federal award if the goods or services involved are chargeable or assignable to that Federal award in accordance with relative benefits received.

LA County may not have properly allocated certain costs of well-being centers to the SABG. (Well-being centers were school-based health centers available to students at 50 public high school campuses across the county.) Specifically, LA County may not have properly allocated \$1,820,224 that it submitted to the State agency for reimbursement for its well-being centers, consisting of the following costs:

²⁸ According to LA County officials, expenditures included in invoices submitted by providers should be allocated based on an actual, not budgeted, percentage. A "Financial Evaluation Report" that the county issued covering SFYs 2015-2016 and 2016-2017 for the provider had a similar finding. The report stated that some payroll expenditures were allocated based on a budgeted percentage. Although LA County included this finding in the report, it removed the related recommendation because after the exit conference, the provider "provided supporting documentation verifying that actual payroll expenses were reported at the end of the contract term."

²⁹ The provider confirmed that the consultant performed no work during July 2019. According to LA County officials, invoices should include only the actual costs incurred.

- Costs of \$1,282,238 were for activities related to well-being centers, such as staff training. However, some of these activities may not have been related to SUD.³⁰ For example, a provider held a 3-day training session in January 2020 for the county’s health educators. According to the agenda, the training was held for about 20 hours over the 3-day period, but there were only 2.5 hours of training activities related to SUDs.
- Costs of \$537,986 were for salaries, benefits, and indirect costs for certain health educators who worked at well-being centers. However, the education provided by these health educators focused on reproductive health. The health educators’ duties did not include SUD-related activities; thus, the health educators may not have performed duties that would be allowable for reimbursement.³¹

According to LA County officials, the county allocated all of the training and staffing expenditures for its well-being centers to the SABG because it had identified risk factors and a correlation between sexual health and substance use. The officials also stated that the goal of the well-being centers program is to support the health and well-being of high school students through substance use prevention programs and activities that address primary risk factors and barriers to health, which include the interrelated factors of substance use and sexual risk-taking.

Although we understand that some of the costs of well-being centers may have been allocable to the SABG, LA County could not demonstrate that all of these costs were allocable to the SABG. Because of this weakness in its allocation procedures, LA County may have assigned certain well-being center costs to the SABG that were related to reproductive health and were not primarily aimed at preventing SUDs. If LA County had an established cost allocation plan, it could have ensured that the well-being centers’ expenditures were accurately allocated to the SABG. If the county allocates unallowable costs to the SABG, less SABG funding is available for preventing substance misuse or treating individuals with SUDs.

CONCLUSION

Some of the State agency’s SABG expenditures for LA County, including expenditures for transitional housing providers, did not comply with Federal and State requirements. Specifically, LA County submitted for reimbursement a general ledger report that included

³⁰ LA County contracted with a provider to support the county’s well-being centers. Specifically, the provider was responsible for developing a curriculum and training county health educators to deliver sexual health education to students while integrating behavioral health topics, such as substance use disorder and mental health. The provider was also responsible for furnishing and training parent educators as well as staffing a call center for students.

³¹ LA County contracted with a provider for the staffing of well-being centers. The duties for health educators with a reproductive health focus included implementing reproductive health-focused services, developing reproductive-health-related curricula, supporting student-led peer health education training, and building awareness of reproductive health issues, but did not include any reference to SUD-related activities.

\$1,681,964 in expenditures for transitional housing services that had been previously reimbursed. In addition, LA County providers submitted for reimbursement unallowable claims for transitional housing and treatment services. Finally, a county provider submitted invoices that included certain unallowable expenditures for prevention activities.

At the county level, these deficiencies occurred because, among other causes, LA County lacked specific requirements, a process, and clear guidance to ensure that claims submitted by providers were allowable, and LA County did not identify or resolve issues related to prevention expenditures through its monitoring activities. At the State level, the State agency performed only a limited review (i.e., by checking quarterly Federal financial management reports and general ledger reports for completeness and critical errors) of SABG expenditures that LA County submitted for reimbursement during our audit period.

In addition, LA County may not have properly allocated certain SABG expenditures. Specifically, we identified a weakness in LA County's procedures that allocated all well-being centers' costs to the SABG. LA County allocated \$1,820,224 in expenditures to the SABG when certain expenditures of the well-being centers may not have been directly related to SUDs.

As a result of these deficiencies and the weakness we identified, the State agency reimbursed or may have reimbursed LA County for unallowable SABG expenditures, and the county reimbursed or may have reimbursed its providers for unallowable claims and expenditures. If SABG funds were used to reimburse unallowable expenditures, the funds may not have been available for preventing substance misuse or treating individuals with SUDs.

RECOMMENDATIONS

We recommend that the California Department of Health Care Services:

- recover from Los Angeles County \$1,681,964 for transitional housing expenditures when closing out the SABG award for our audit period and establish a process to review whether counties, including LA County, were reimbursed for expenditures that had been previously reimbursed; and
- instruct Los Angeles County to develop a cost allocation plan for its well-being centers, determine the portion of the \$1,820,224 that should not have been allocated to the SABG, and recover any overpayment.

We also recommend that the California Department of Health Care Services work with Los Angeles County to:

- develop a process to ensure that LA County's claims processing system does not pay transitional housing claims after an individual has been discharged from outpatient treatment,

- provide clear guidance to providers on claiming and documenting treatment services, and
- develop procedures for LA County’s monitoring activities to identify whether providers are submitting invoices for reimbursement based on actual costs incurred.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency concurred with our first, second, third, and fifth recommendations and provided information on actions that it planned to take to address these recommendations. However, the State agency did not concur with our fourth recommendation.³² After considering the State agency’s comments, we revised our fourth recommendation.

The State agency’s comments are included in their entirety as Appendix C.

STATE AGENCY COMMENTS

The State agency provided the following comments on our five recommendations:

- The State agency concurred with our first recommendation (related to our finding on duplicate reimbursement for transitional housing services). It stated that when cost reports are reviewed and audited, it will verify that reported costs are adequate, proper, and allowable. The State agency also stated that it will work with the Office of Inspector General to verify the disclosure indicating that LA County improperly claimed \$1,681,964 in duplicate billings, and once verified, will pursue recoupment. In addition, the State agency said that it will review whether counties claimed expenditures previously claimed as part of the cost report review.
- The State agency concurred with our second recommendation (related to our finding on improper allocation of expenditures for well-being centers). It stated that it will work with LA County to develop a cost allocation plan for the well-being centers. The State agency also said that it will review provider documentation that supports providers’ allocated expenditures to determine the allocation methodology. Furthermore, the State agency said that it will determine what portion of the \$1,820,224 should not have been allocated to the SABG and will recover any overpayment.
- The State agency concurred with our third recommendation (related to our finding on unallowable claims for transitional housing services). It stated that during the audit of

³² We refer to the numbers of our recommendations based on their order in the “Recommendations” section of our report. However, in its comments, the State agency numbered the recommendations based on the order of the related findings in the report. The State agency referred to our second recommendation as “recommendation 5,” our third recommendation as “recommendation 2,” our fourth recommendation as “recommendation 3,” and our fifth recommendation as “recommendation 4.”

the LA County cost report for SFY 2019–2020, it will review and verify the billings against the actual client daily census to ensure that the county’s claims processing system does not pay transitional housing claims after an individual has been discharged from outpatient treatment. The State agency also said that it will review providers’ supporting documentation, such as sign-in sheets and attendance records. Additionally, the State agency said that it will review LA County’s monitoring report to identify any issues related to the SABG.

- The State agency did not concur with our fourth recommendation (related to our finding on unallowable claims for treatment services). It stated that the Drug Medi-Cal Organized Delivery System (DMC-ODS) Intergovernmental Agreement referred to in our draft report applies to SUD treatment services covered and reimbursed under the DMC-ODS and does not apply to SABG-funded services. The State agency said that while it agrees that LA County is obligated to provide clear and consistent guidance on claiming and documentation standards to LA County’s SABG-funded providers, it does not agree with documentation standards for SABG-funded providers being derived from the DMC-ODS Intergovernmental Agreement.
- The State agency concurred with our fifth recommendation (related to our finding on unallowable expenditures for prevention activities). It stated that it will review invoices, timesheets, and payroll to ensure that the provider adhered to the contract terms requiring submission of invoices for reimbursement based on actual costs incurred.

OFFICE OF INSPECTOR GENERAL RESPONSE

After considering the State agency’s comments on our fourth recommendation and reviewing the DMC-ODS Intergovernmental Agreement and other documentation, we revised our finding on unallowable claims for treatment services and our recommendation. Specifically, we removed the part of our finding related to claims for individual counseling services and criteria that was no longer applicable (i.e., the references to the Intergovernmental Agreement and the relevant sections of LA County’s SAPC Information Notice 19-03). We also revised our fourth recommendation to state that the State agency should work with LA County to provide clear guidance to providers on claiming and documenting treatment services.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered SABG expenditures that LA County submitted to the State agency for reimbursement for the period July 1, 2019, through June 30, 2020 (SFY 2019–2020). For our audit period, LA County submitted \$80,647,848 in expenditures for transitional housing and treatment services and for prevention and other activities.

We compared the transitional housing and treatment service expenditures reported on LA County’s general ledger reports, totaling \$34,151,004, with documentation supporting those reports. In addition, we reviewed expenditures for certain other activities (i.e., support services), including expenditures for well-being centers totaling \$1,820,224. We then selected a judgmental sample of 80 SABG claims or expenditures submitted by LA County for reimbursement during our audit period. Specifically, we judgmentally selected from Sage 46 claims for transitional housing or treatment services and judgmentally selected 34 expenditures included in LA County’s hardcopy monthly invoices for prevention or other activities, totaling \$153,017, and reviewed supporting documentation.

We limited our review of internal controls to those related to our objective. Specifically, we reviewed State agency and LA County guidance and interviewed State agency officials and county officials and providers.

We conducted our audit from June 2021 to August 2023.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State laws, regulations, and guidance;
- interviewed State agency officials to obtain an understanding of how LA County submitted quarterly Federal financial management reports and general ledger reports to the State agency, and how the ledger reports were processed;
- interviewed LA County officials to obtain an understanding of the process of contracting with providers, the processing of transitional housing and treatment claims, and the submission of prevention contract invoices;
- obtained from the State agency quarterly Federal financial management reports and quarterly general ledger reports that LA County submitted during our audit period;
- obtained from LA County transitional housing and treatment reports and examples of prevention contract invoices that providers submitted;

- compared and reconciled the transitional housing and treatment claims that providers submitted to LA County with the general ledger reports;
- reviewed supporting documentation obtained from LA County and providers for certain other activities (i.e., support services), including expenditures for well-being centers;
- selected for review a judgmental sample of 46 claims (transitional housing or treatment services) from Sage and 34 expenditures (prevention or other activities) from hardcopy invoices provided by LA County;³³
- reviewed supporting documentation obtained from providers for the selected claims and expenditures; and
- discussed the results of our audit with State agency officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

³³ Generally, we selected for review expenditures with potential risks, such as expenditures for individuals with a higher number of transitional housing claims compared with other individuals.

APPENDIX B: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>The Substance Abuse and Mental Health Services Administration Did Not Ensure That Clinics Fully Complied With Federal Requirements When Awarding and Monitoring Certified Community Behavioral Health Clinic Expansion Grants</i>	A-02-21-02010	9/11/2023
<i>Vermont Complied With Regulations When Implementing Programs Under SAMHSA’s Opioid Response Grants, but Claimed Unallowable Expenditures</i>	A-01-20-01501	5/24/2023
<i>Louisiana Faced Compliance and Contracting Challenges in Implementing Opioid Response Grant Programs</i>	A-06-20-07003	4/8/2022
<i>SAMHSA’s Oversight Generally Ensured That the Commission on Accreditation of Rehabilitation Facilities Verified That Opioid Treatment Programs Met Federal Opioid Treatment Standards</i>	A-09-20-01002	10/1/2021
<i>Choctaw Nation of Oklahoma Made Progress Toward Meeting Program Goals During the First Year of Its Tribal Opioid Response Grant</i>	A-07-20-04121	1/20/2021
<i>Opioid Treatment Programs Reported Challenges Encountered During the COVID-19 Pandemic and Actions Taken To Address Them</i>	A-09-20-01001	11/18/2020
<i>In Selected States, 67 of 100 Health Centers Did Not Use Their HRSA Access Increases in Mental Health and Substance Abuse Services Grant Funding in Accordance With Federal Requirements</i>	A-02-19-02001	11/13/2020
<i>HRSA’s Monitoring Did Not Always Ensure Health Centers’ Compliance With Federal Requirements for HRSA’s Access Increases in Mental Health and Substance Abuse Services Supplemental Grant Funding</i>	A-02-18-02010	7/21/2020
<i>SAMHSA’s Oversight of Accreditation Bodies for Opioid Treatment Programs Did Not Comply With Some Federal Requirements</i>	A-09-18-01007	3/6/2020
<i>The Substance Abuse and Mental Health Services Administration Followed Grant Regulations and Program-Specific Requirements When Awarding State Targeted Response to the Opioid Crisis Grants</i>	A-03-17-03302	3/28/2019
<i>New York Did Not Provide Adequate Stewardship of Substance Abuse Prevention and Treatment Block Grant Funds</i>	A-02-17-02009	3/20/2019

APPENDIX C: STATE AGENCY COMMENTS



September 21, 2023

THIS LETTER SENT VIA EMAIL.

Lori A. Ahlstrand
Regional Inspector General for Audit Services
Office of Audit Services, Region IX
90 – 7th St, Suite 3-650
San Francisco, CA 94103

RE: RESPONSE TO DRAFT REPORT NUMBER: A-09-21-01001

Dear Ms. Ahlstrand:

The Department of Health Care Services (DHCS) hereby submits the enclosed response to the Office of Inspector General (OIG) draft report number A-09-21-01001, titled, “Some of California’s Substance Abuse Prevention and Treatment Block Grant Expenditures for Los Angeles County Did Not Comply With Federal and State Requirements.”

In the above draft report, OIG issued five recommendations for DHCS. DHCS concurs with all of OIG’s recommendations, except for Recommendation 3, and has prepared responses for all recommendations.

DHCS appreciates the work performed by OIG and the opportunity to respond to the draft report. If you have any questions, please contact the DHCS Office of Compliance, Internal Audits at (916) 445-0759.

Sincerely,

Michelle Baass
Director

Enclosure

cc: See Next Page

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Gavin Newsom, Governor

California Health and Human Services Agency

Ms. Lori A. Ahlstrand
Page 2
September 21, 2023

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Audit: “Some of California’s Substance Abuse Prevention and Treatment Block Grant Expenditures for Los Angeles County Did Not Comply With Federal and State Requirements.”

Audit Entity: Office of Inspector General

Report Number: [A-09-21-01001] (22-02) (SABG Expenditures Audit)

Response Type: DHCS’ Response to OIG’s Draft Report

Finding 1 Los Angeles (LA) County Submitted Certain Expenditures for Duplicate Reimbursement

Recommendation 1

Department of Health Care Services (DHCS) should recover from LA County \$1,681,964 for transitional housing expenditures when closing out the Substance Abuse Prevention and Treatment Block Grant (SABG) award for our audit period and establish a process to review whether counties, including LA County, were reimbursed for expenditures that had been previously reimbursed.

What is DHCS’ Response to the Recommendation? Concurrence

DHCS’ Response:

DHCS’ current review process of County’s expenditures of SABG funds includes the quarterly review of County’s Quarterly Federal Financial Management Report (QFFMR) and the audit of year-end interim cost reports. When the cost reports are reviewed and audited, DHCS will verify reported costs are adequate, proper, and allowable. DHCS will work with the Office of Inspector General (OIG) to verify the disclosure indicating LA County improperly claimed \$1,681,964 in duplicate billings. Once verified, recoupment will be pursued.

In addition, DHCS will review whether counties claimed expenditures previously claimed as part of the cost report review. The review will ensure claimed expenditures are properly accounted for in the cost report settlement audits in accordance with 45 Code of Federal Regulations (CFR) section 75.403, which states costs must be necessary and reasonable for the performance of the federal award and be allocable under these principles, as well as adequately documented.

The cost report for LA County for Fiscal Year (FY) 2019-20 has not yet been submitted to DHCS, but DHCS anticipates receipt on December 1, 2023. The LA County audit for FY 2017-18 was projected to be finalized by December 31, 2022. However, a discrepancy in cost of approximately \$19 million was determined and LA County requested to amend its cost report. The audit is now projected to be completed by April 30, 2024.

Finding 2 Three LA County Providers Submitted for Reimbursement Unallowable Claims for Transitional Housing Services

Recommendation 2

DHCS should work with LA County to develop a process to ensure that LA County's claims processing system does not pay transitional housing claims after an individual has been discharged from outpatient treatment.

What is DHCS' Response to the Recommendation? Concurrence

DHCS' Response:

During the audit of the LA County cost report for FY 2019-20, DHCS will review and verify the billings against actual client daily census to ensure the County's claims processing system does not pay transitional housing claims after an individual has been discharged from outpatient treatment.

In addition, DHCS will review the provider's supporting documentation, e.g., census records, sign-in sheets, client files, and attendance records.

LA County has a Contract Monitoring Unit (Contract Program Auditors) to review billing substantiation and verification of claims in compliance with 45 CFR section 75.403. DHCS will review the County's monitoring report to identify any issues related to SABG.

Finding 3 Three LA County Providers Submitted for Reimbursement Unallowable Claims for Treatment Services

Recommendation 3

DHCS should work with LA County to clarify the guidance given to LA County providers about the inclusion in progress notes of the time spent preparing those notes (i.e., documentation time) and include the monitoring of this requirement in its programmatic reviews.

What is DHCS' Response to the Recommendation? Nonconcurrency

DHCS' Response:

There is a concern regarding Finding #3 – In the Draft Report, OIG is referencing the Drug Medi-Cal Organized Delivery System (DMC-ODS) Intergovernmental Agreement (IA), which applies to Substance Use Disorder treatment services covered and reimbursed under the DMC-ODS. The Medi-Cal contract terms (including but not limited to documentation standards) in the county's IA do not apply to SABG-funded services. We want to ensure OIG is not conflating the Medi-Cal IA documentation requirements with SABG documentation requirements. SABG requirements are referenced in County Performance Contracts and in the State/County application documentation. DHCS uses the Performance Contract to administer SABG funds awarded to county subrecipients. While DHCS agrees LA County is obligated to provide clear and consistent guidance on claiming and documentation standards to the county's

SABG-funded providers, we do not agree with documentation standards for SABG-funded providers being derived from the DMC-ODS IA.

The requirements for SABG service delivery are described in the County Performance Contract and the State/County Application. DHCS will ensure County Performance Contracts reflect federal requirements for SABG subrecipients. LA County is responsible for providing guidance to contract providers consistent with the above-mentioned documents. Please note SABG documentation requirements are separate and distinct from the Medi-Cal requirements listed in the DMC-ODS IA. DHCS will continue to monitor the county's provider oversight.

Finding 4 One LA County Provider Submitted for Reimbursement Invoices That Included Certain Unallowable Expenditures for Prevention Activities

Recommendation 4

DHCS should work with LA County to develop procedures for LA County's monitoring activities to identify whether providers are submitting invoices for reimbursement based on actual costs incurred.

What is DHCS' Response to the Recommendation? Concurrence

DHCS' Response:

Federal regulation (45 CFR section 75.403) requires costs be necessary, reasonable, and allocable to federal awards, as well as adequately documented. DHCS will review invoices, timesheets, and payroll to ensure the provider adhered to the contract terms of submitting invoices for reimbursement based on actual costs incurred.

Finding 5 Certain SABG Expenditures May Not Have Been Properly Allocated

Recommendation 5

DHCS should instruct LA County to develop a cost allocation plan for its well-being centers, determine the portion of the \$1,820,224 that should not have been allocated to the SABG, and recover any overpayment.

What is DHCS' Response to the Recommendation? Concurrence

DHCS' Response:

To address OIG's concern regarding LA County's improper allocation of expenditures to the SABG, DHCS will work with LA County to develop a cost allocation plan for the Well-Being Centers. DHCS will review the provider's worksheet, timesheets, employee job duty statements, and other relevant documentation to support the provider's allocated expenditures in accordance with Title 42 of the United States Code (U.S.C.) section 300x-21(b) to determine the allocation methodology. DHCS will determine what portion of the \$1,820,224 should not have been allocated to the SABG, and will recover any overpayment.

DHCS' Response to OIG's Draft Report | 22-02
(SABG Expenditures Audit)

Page 3 of 3