

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

A REVIEW OF THE RIVERSIDE COUNTY
DEPARTMENT OF MENTAL HEALTH'S CONTRACTS
WITH THE HARVEST OF WELLNESS FOUNDATION



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Office of the Auditor General

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Kurt R. Sjoberg
Acting Auditor General

August 14, 1989

P-874

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2148
Sacramento, California 95814

Dear Mr. Chairman and Members:

We reviewed certain aspects of the operations of the Harvest of Wellness (HOW) Foundation, a not-for-profit mental health agency that contracts with the Riverside County Department of Mental Health (RCDMH). This letter presents the results of our review of the HOW Foundation and the RCDMH's monitoring of the Foundation's operations.

While the HOW Foundation has provided needed mental health services in the desert region of Riverside County, it has experienced management problems for several years. Despite these problems, the RCDMH has not consistently monitored the Foundation as the RCDMH's policy manual requires. Without adequately monitoring its contractors, the RCDMH may not become aware of problems that affect county contracts. Moreover, when the RCDMH has become aware of problems with the HOW Foundation, it has not always taken steps to ensure that the problems are corrected, even though some problems have resulted in a monetary loss to the State and county. For example, the HOW Foundation inappropriately used \$23,000 in funds it received through a contract with the RCDMH. Although the RCDMH knew about this use, it did not require prompt repayment of the sum. If the RCDMH does not require that the Foundation use its contract funds appropriately, the State may pay more for mental health services than is necessary.

Despite its difficulties with the HOW Foundation, the RCDMH has been hesitant to formally advertise for bids for contractors to replace the HOW Foundation. Without advertising for contractors, the county cannot be assured that it has contracted with the most qualified contractor at the lowest bid.

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Background

The State Department of Mental Health (department) and each of the counties in the State share responsibility for administering the public mental health system in California. The department coordinates statewide efforts to treat and prevent mental disabilities, oversees county programs, distributes state funds to counties, and provides services directly to mental health clients in state hospitals. The counties provide or contract to provide services directly to mental health clients.

As the agency responsible for coordinating the State's mental health program, the department administers the Short-Doyle Act. The Short-Doyle Act established a system to provide a continuum of support services at the community level for mental health clients. The department, in consultation with the California Conference of Local Mental Health Directors and the California Council on Mental Health, establishes a broad policy for delivering mental health services statewide and establishes priorities, standards, and procedures by which the mental health programs are operated.

To meet the requirements of the Short-Doyle Act, counties must submit annual plans to the department or negotiate contracts with the department that specify how the counties will provide mental health services in their communities. Under these plans and contracts, counties are reimbursed from the State's General Fund for 90 percent of the net costs of local mental health services; the counties generally provide the remaining 10 percent.

While the department is responsible for coordinating the State's mental health program, control over the local provision of mental health services rests with the counties. Mental health legislation passed in 1984 increased county flexibility in administering mental health programs and expenditures and reduced state control and unnecessary bureaucratic processes.

Riverside County Department of Mental Health

Riverside County administers its mental health program, including services funded by the Short-Doyle Act, by providing services directly to clients and by contracting with the county hospital and with private organizations. For fiscal year 1986-87, the RCDMH entered into 20

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contracts for mental health services worth \$4,482,927. The largest contract, worth \$3,000,000, was with the county general hospital. The RCDMH awarded six others, worth a total of \$498,972, to the HOW Foundation. The RCDMH's branch office in Indio was responsible for monitoring most of the county's contracts with the HOW Foundation.

The Harvest of Wellness Foundation

The HOW Foundation, a not-for-profit corporation, was incorporated in 1982 to support the county's mental health program. The HOW Foundation was granted its first county contract in May 1984 and grew rapidly until fiscal year 1986-87. Its number of county contracts then declined, as shown in the following table.

TABLE

THE HARVEST OF WELLNESS FOUNDATION
 CONTRACTS WITH RCDMH

<u>Fiscal Year</u>	<u>Number of Contracts</u>	<u>Total Contract Amount</u>
1983-84	1	\$ 70,000
1984-85	1	169,000
1985-86	2	286,107
1986-87	6	498,972
1987-88	3	415,899
1988-89	2/1 ^a	<u>225,012</u>
Total ^b		<u>\$1,664,990</u>

Source: Mental health contracts between RCDMH and the HOW Foundation.

^a RCDMH terminated one of these contracts on November 10, 1988.

^b The HOW Foundation has also received funding from the State Office of Criminal Justice Planning for a rape crisis project, as well as client service fees and donations.

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The purpose of these county-funded contracts was to provide mental health clients with services, including residential care and social rehabilitation activities. In addition, one contract for fiscal year 1986-87 was amended to provide start-up funds for the HOW Foundation to establish a vocational services program. The HOW Foundation used this money to fund a thrift shop, which was intended to provide work for mental health clients as well as additional revenue for the Foundation. As of June 1989, the HOW Foundation retained one contract with Riverside County, the Breakthrough residential program in the City of Riverside, and one contract with the State, a rape crisis center in Indio, funded by the Office of Criminal Justice Planning.

The HOW Foundation's rapid growth through fiscal year 1986-87 was accompanied by management problems, including inadequate financial records. In fact, in 1986, the RCDMH found that the HOW Foundation had no formal books of record. In addition, the HOW Foundation had inadequate management controls. For example, it never finalized its personnel procedures and did not develop accounting procedures until 1988. Finally, there were communication problems within the HOW Foundation. Members of the HOW Foundation's board of directors told us that the Foundation's first executive director did not always keep the board members informed. For example, one board member told us that the HOW Foundation was on county probation for several months before the board was informed and that the executive director did not inform them of personnel decisions.

Scope and Methodology

The purpose of this audit was to review specific concerns related to the RCDMH's contracts with the HOW Foundation. We did not evaluate the quality or quantity of services provided. To determine the responsibilities the department, the RCDMH, and the HOW Foundation each have for providing mental health care in Riverside County, we reviewed applicable legislation, Riverside County's Short-Doyle Act plan, and contracts between the county and the HOW Foundation. We also reviewed the contracts and cost reports to determine the level of funding provided to the HOW Foundation by the county and by other sources. We then reviewed support for the costs that the HOW Foundation claimed against its various contracts with the RCDMH.

To determine how Riverside County monitored the HOW Foundation's activities, we reviewed the county's contract files and correspondence files. We also reviewed the HOW Foundation's files and interviewed state and county officials, as well as members of the Foundation's board of directors.

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During our review of the HOW Foundation, we found its accounting records to be incomplete. Incomplete accounting records also caused the independent certified public accountants firm that conducted audits of the HOW Foundation for fiscal years 1985-86 and 1986-87 to qualify its opinion. Moreover, the RCDMH stated that, because of the inadequacy of accounting records, it has not been able to verify certain information the HOW Foundation provided. We attempted to verify certain accounting information at the HOW Foundation when possible, but we were not able to do so in many cases because of missing or incomplete data.

The RCDMH Has Not Effectively
Monitored the HOW Foundation's Activities

Policy number 121 of the RCDMH's policy manual requires an annual review of each of its mental health contracts. The review should include clinical, administrative, and fiscal functions and should be conducted no later than six months before the contract termination date. The objectives of the annual review include identifying potential problem areas, increasing efficiency, improving internal controls, evaluating contractor management abilities, and evaluating accuracy of information.

Despite the requirements of policy number 121, we found that the RCDMH has only conducted one complete annual review of the HOW Foundation since fiscal year 1983-84 when it began contracting with the county. It conducted this review in March and April 1986. Although it has not conducted the required administrative and fiscal reviews, the RCDMH has, however, conducted several clinical reviews of the HOW Foundation's delivery of services to clients. The RCDMH's deputy director informed us that the RCDMH concentrated its review efforts in the clinical area rather than administrative or fiscal areas because of its concern for the well-being of the mentally ill clients.

Numerous concerns were raised during the 1986 review, including the RCDMH's finding that the HOW Foundation maintained "no formal books of record." Also, this review disclosed that the HOW Foundation was experiencing various internal control problems, such as insufficient separation of duties and employees not signing time sheets. Despite these problems, the RCDMH did not follow up on its monitoring review to ensure that these problems were resolved, and the HOW Foundation continues to have problems.

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In addition to not following up on its 1986 monitoring review, we found that the RCDMH made errors during this review. For example, the RCDMH is supposed to use a checklist attached to policy number 121 that allows the evaluator to rate a contractor on a number of administrative areas. Two of the questions on this checklist dealing with the existence of written policies and procedures were rated "acceptable." However, as stated earlier, we found that the HOW Foundation did not develop policies and procedures for its accounting system until 1988, and, although the Foundation drafted personnel procedures, it never finalized or approved them. Thus, the RCDMH rated as "acceptable" aspects of the HOW Foundation that did not even exist.

Because the RCDMH has not consistently monitored the administrative and fiscal activities of the HOW Foundation, it has not been aware of problems within the Foundation that affect its contracts with the Foundation. For example, we reviewed a sample of costs claimed against the county contracts and found that the HOW Foundation had purchased a house that was originally planned for use as a rehabilitation facility but instead was rented to a tenant. Two thousand dollars of the closing costs for this purchase was inappropriately charged against RCDMH contracts. We also identified \$1,000 in loan repayment costs that was incorrectly charged against county contracts. Because the RCDMH did not review these claimed costs, it was not aware of these inappropriate charges.

RCDMH officials told us that, in the past, they completed very few of the required annual evaluations because of staffing constraints. It did complete an annual evaluation of the contractor that replaced the HOW Foundation to provide residential treatment services in Indio in June 1989. However, because policy number 121 requires that the RCDMH evaluate contracts for less than a year no later than halfway through the contract period, this evaluation was due in late March 1989.

The RCDMH Has Not Required Prompt Repayment of Inappropriately Used Funds

Since 1987, through partial monitoring of the HOW Foundation and through interaction with the Foundation, the RCDMH staff have noted continuing problems at the Foundation. These problems have sometimes resulted in overcharges to the RCDMH and misuse of RCDMH funds. Nevertheless, the RCDMH has not required prompt repayment of the money that the HOW Foundation has used inappropriately.

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For example, the HOW Foundation had a major financial problem in 1987. The RCDMH contracted with the HOW Foundation in March 1987 to fund Project Roadside, an emergency shelter for the mentally ill. The contract was for \$82,287, and the HOW Foundation received \$67,082 of that amount from the RCDMH. When the project was delayed, the HOW Foundation inappropriately used \$23,000 of the contract money on other projects. The RCDMH requested repayment from the HOW Foundation and placed a lien on the Foundation's property. However, as of the end of our fieldwork (July 1989), the county had not required repayment. County officials told us that they were concerned that the HOW Foundation would not be able to continue providing services to the mentally ill if the county required repayment.

In another example of how the RCDMH has not required repayment of funds owed to it, the HOW Foundation was burglarized in October 1988 and collected over \$15,000 from its insurance company. The HOW Foundation is using this money to support its ongoing operations even though many of the assets stolen were purchased using county funds. The RCDMH has not attempted to recover its share of the insurance proceeds nor attempted to ensure that the proceeds are used to replace lost county assets because it believes that this might put the HOW Foundation out of business. Although the Foundation may need additional funding to continue its operations, the RCDMH should have collected its share of the funds. The HOW Foundation could then request a contract modification for additional funding. Because of the HOW Foundation's financial position, the longer the RCDMH waits to recover its funds, the less likely there will be any funds available. Also, since most of the money for county mental health programs comes from the State's General Fund, the loss of these funds represents a loss of state money.

The RCDMH Has Been Hesitant To Seek
Alternate Providers of Mental Health Services

For several years, the RCDMH staff have been aware of the HOW Foundation's problems, yet the RCDMH has continued to grant the Foundation contracts for new and for continuing mental health services rather than advertising for alternate providers. For fiscal year 1987-88, the RCDMH granted the HOW Foundation three contracts without advertising for alternate providers. It then immediately placed the Foundation on probation.

Rather than continuing to grant contracts to an organization that is having management difficulties and that owes it money, the RCDMH should have issued requests for proposals (RFPs), which are public

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advertisements for bids on contracts. An RFP lists such elements as the services required, the minimum qualifications required of prospective contractors, and the time frame for the contract.

The more potential providers an agency contacts, the greater the competition and the likelihood of obtaining the best contractor available. Nevertheless, before February 1988, the RCDMH had issued only one RFP for mental health services in the Indio area such as those provided by the HOW Foundation. By that time, the RCDMH had granted 11 contracts to the HOW Foundation with little or no competition. RCDMH officials told us that they have no criteria regarding when to renew a contract noncompetitively as opposed to issuing an RFP in an effort to attract alternate providers. They stated that they began work on an RFP policy several years ago but never completed it.

Representatives of the RCDMH also told us that they felt that it was better to work with an existing provider than to try obtaining a new provider since only a limited number of providers were available in the area. However, when the RCDMH finally did issue RFPs in 1988, two other potential providers responded. The RCDMH subsequently contracted with one of those providers.

To ensure that the best services are provided (especially when the incumbent is providing marginal services) alternate providers should be encouraged. Had the RCDMH actively solicited other providers, it may have found a better provider or have given the HOW Foundation the incentive to perform better.

Conclusion

The Riverside County Department of Mental Health has not monitored the administrative and fiscal activities of the Harvest of Wellness Foundation as required by the RCDMH's policy, even though it was aware that the Foundation was having management problems. It cited staffing limitations as contributing to its insufficient monitoring. Moreover, when it has become aware that the HOW Foundation inappropriately charged costs, the RCDMH has not required prompt repayment because it believed that doing so might put the HOW Foundation out of business. Finally, the RCDMH did not promptly issue requests for proposals when it became aware of problems with the HOW Foundation because the RCDMH has no policy regarding RFPs, nor did the RCDMH believe that there were qualified alternate contractors in the area.

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Recommendations

To address its problems with the Harvest of Wellness Foundation and to reduce the likelihood of having similar problems with other contractors, the Riverside County Department of Mental Health should take the following actions:

- Comply with its policy to conduct formal annual reviews of its contractors no later than halfway through the contract year;
- Take action to ensure that problems surfacing during formal and informal evaluations are corrected;
- Take steps to recover overclaimed costs; and
- Develop a policy on when to issue RFPs to encourage competition and to ensure that it obtains the best available contractor.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this letter.

Respectfully submitted,



for KURT R. SJOBERG
Acting Auditor General

Responses:

Response from the Department of Mental Health

Response from the Riverside County Department of Mental Health

Response from the Harvest of Wellness Foundation

DEPARTMENT OF MENTAL HEALTH

1600 - 9th STREET
SACRAMENTO, CA 95814
(916) 323-8173



July 31, 1989

Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 "J" St., Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

**P-874: A REVIEW OF THE RIVERSIDE COUNTY DEPARTMENT OF MENTAL HEALTH'S
CONTRACTS WITH THE HARVEST OF WELLNESS FOUNDATION (JULY 1989)**

Mr. Clifford L. Allenby, Secretary of the Health and Welfare Agency, has asked me to respond to your report, P-874, concerning the Riverside County Department of Mental Health's (RCDMH) monitoring of the Harvest of Wellness Foundation, a contract mental health provider. We appreciate the opportunity to respond to your concerns, and we agree that the management problems described are significant and require corrective action.

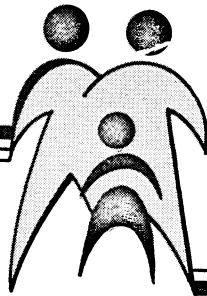
I have asked Tom Rietz, Deputy Director of the State Department of Mental Health's (SDMH) Division of Community Programs, to work closely with RCDMH to encourage improved awarding and monitoring of contracts for the provision of mental health services, including advertising for the awarding of contracts. Although the Auditor General's report is correct in stating that the contract awarding process is essentially a local responsibility, one of SDMH's primary roles is to provide leadership to local mental health programs. Consequently, we are confident that RCDMH will respond favorably to our requests for enhanced competition for contracts and improved contract management, including compliance with the already established Riverside County policy of reviewing each of its providers at least once annually and no later than six months before a given contract termination date. We will actively encourage RCDMH to take action to correct problems identified during evaluations.

In addition, Mr. Rietz will rely upon the Auditor General's report to assure that appropriate collections occur and that providers are required to maintain sufficient records and controls to assure that funds under the jurisdiction of SDMH are used appropriately.

Again, we appreciate your review and welcome the opportunity to respond to it. If you have any questions, please contact Stan Nielsen, Chief of the Financial Management Branch, at 3-8261.

Sincerely,

Handwritten signature of Douglas G. Arnold in cursive script.
DOUGLAS G. ARNOLD
Acting Director



DEPARTMENT OF MENTAL HEALTH

Reply to: Mental Health Administration
P. O. Box 7549
Riverside, CA 92513

August 3, 1989

Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

This is in response to your report, "A Review of the Riverside County Department of Mental Health's Contracts With The Harvest of Wellness Foundation." I am in agreement with your four recommendations as indicated below:

- Comply with its policy to conduct formal annual reviews of its contractors no later than halfway through the contract year;
- Take action to ensure that problems that surface during formal and informal evaluations are corrected;
- Take steps to recover overclaimed costs; and
- Develop a policy on when to issue RFPs to encourage competition and to ensure that it obtains the best available contractors.

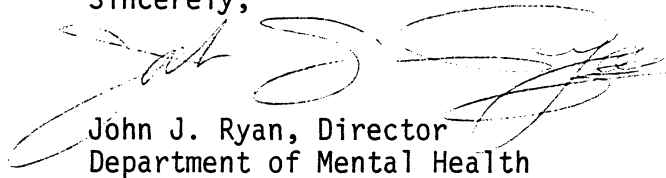
In addition, actions by the Department have been taken to hire additional staff in the Fiscal Section to assist clinical staff in conducting the fiscal aspects of the annual monitoring reviews. The reorganization of the administrative staff within the Department which has been planned for will allow for more central oversight of the

Response from the Harvest of Wellness Foundation
to the Office of the Auditor General

We provided the Harvest of Wellness Foundation with a draft copy of our report but it did not respond.

I would like to take this opportunity to thank you and your staff for the patience and openness exhibited during the course of the review. However, I would like to respectfully suggest that the scope of future audits be clearly specified.

Sincerely,



John J. Ryan, Director
Department of Mental Health