

ALAMEDA COUNTY HEALTH CARE SERVICES AGENCY

Audit Report

PROPOSITION 47 SAFE NEIGHBORHOODS AND SCHOOLS FUND GRANT EXPENDITURES

July 1, 2016, through June 30, 2019



BETTY T. YEE
California State Controller

November 2020



BETTY T. YEE
California State Controller

November 12, 2020

Colleen Chawla, Director
Alameda County Health Care Services Agency
1000 San Leandro Boulevard, Suite 300
San Leandro, CA 94577

Dear Ms. Chawla:

This is the final report for our audit of the Alameda County Health Care Services Agency's Proposition 47 Safe Neighborhoods and Schools Fund grant expenditures for the period of July 1, 2016, through June 30, 2019.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310, or by email at afinlayson@sco.ca.gov.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/ac

cc: Dr. Karyn Tribble, Director
Alameda County Behavioral Health Care Services
James Wagner, Deputy Director
Alameda County Behavioral Health Care Services
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Audit Report

Summary

The State Controller's Office (SCO) conducted a performance audit of Alameda County Health Care Services Agency's (AC HCSA) Proposition 47 Safe Neighborhoods and Schools Fund (SNSF) grant expenditures for the period of July 1, 2016, through June 30, 2019. The purpose of the audit was to ensure that program funds were disbursed and expended in accordance with program guidelines and grant requirements, as required by Government Code (GC) section 7599.2(c), and applicable laws and regulations.

Our audit found that AC HCSA did not adequately account for community-based organization (CBO) subcontractor costs of \$74,060 charged to the Proposition 47 SNSF Grants Program in fiscal year (FY) 2017-18 and FY 2018-19. We identified \$74,060 in questioned program costs, specifically those associated with CBO subcontractor flexible funds, for which AC HCSA did not keep sufficient financial and/or accounting records for grant reimbursement. We also questioned indirect costs of \$5,554, as they were associated with the \$74,060 in CBO subcontractor direct costs.

Except as noted in the finding, AC HCSA's claimed grant expenditures were in compliance with applicable laws, regulations, program guidelines, and grant agreements.

Background

Proposition 47 – Safe Neighborhoods and Schools Fund

On November 4, 2014, California voters approved Proposition 47, which reduces penalties for certain offenders convicted of non-serious and nonviolent property and drug crimes. It also allows some offenders to apply for reduced sentences. Proposition 47 established the Safe Neighborhoods and Schools Fund, which is funded by savings that accrue to the State from implementation of the measure. This mandate is expected to save significant state corrections dollars annually.

Savings resulting from Proposition 47 are transferred to the Safe Neighborhoods and Schools Fund to be used in support of truancy reduction and drop-out prevention programs for public school pupils in grades K through 12, increase victim services grants, and support substance abuse and mental health treatment and diversion programs for people in the criminal justice system.

Alameda County Health Care Services Agency

On June 8, 2017, the BSCC awarded, through the Request for Proposals bid process, a Proposition 47 SNSF grant of \$6,000,000 to AC HCSA.

According to the approved Request for Proposal, the grant funds were to support the Alameda County Proposition 47 Project. The project provides mental health and substance-use-disorder treatment services and housing-related assistance to residents in the justice system who have mental health

issues and/or substance use disorders that limit one or more of their life activities.

Audit Authority

The legal authority to conduct this audit is provided by GC section 7599.2(c), which requires the Controller, every two years, to conduct an audit of the Proposition 47 SNSF Grants Program operated by BSCC “to ensure the funds are disbursed and expended solely according to this chapter” and to “report his or her findings to the Legislature and the Public.”

In addition, GC section 12410 states, in part:

The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment.

Objective, Scope, and Methodology

The objective of our audit was to ensure that AC HCSA adequately accounted for Proposition 47 SNSF grant fund expenditures, and that its program funds were disbursed and expended in accordance with program guidelines and grant requirements and as required by GC section 7599.2(c) for the period of July 1, 2016, through June 30, 2019.

To achieve our objective, we:

- Identified the Proposition 47 SNSF Grants Program background, criteria, purpose, and requirements by reviewing the FY 2016-17 Governor’s Budget, GC sections 7599 through 7599.2, and the California Department of Finance fund classification and basis for the Safe Neighborhoods and Schools Fund;
- Reviewed AC HCSA’s Proposition 47 SNSF grant files, grant agreements, program guidelines, program requirements, and claimed invoices;
- Reviewed AC HCSA’s claimed grant expenditures and performed analytical procedures and budgetary analyses to identify the material cost components of each claim, in addition to any errors and any unusual or unexpected variances;
- Interviewed AC HCSA key personnel, completed internal control questionnaires, reviewed written internal policies and procedures, and identified controls related to our audit objective. Performed a limited walk-through of critical controls in order to gain a general understanding of AC HCSA’s internal controls related to the Proposition 47 SNSF Grants Program, such as accounting, timekeeping, and procurement, and procedures performed by staff when preparing, reviewing, and approving grant expenditures; monitoring the grants program; and recording disbursements and expenditures in the AC HCSA financial management system;
- Assessed AC HCSA’s internal controls related to the Proposition 47 SNSF Grants Program by reviewing policies and procedures,

guidelines, grant agreements, contracts, and expenditure reports and supporting documents; and conducted limited tests of those controls related to our audit objective in order to determine whether the controls were functioning as intended and whether AC HCSA was in compliance with written internal policies and procedures, and applicable provisions of laws, regulations, and established criteria;

- Verified that, during the audit period, BSCC awarded AC HCSA with \$6,000,000 in Proposition 47 SNSF grant funds, of which \$2,390,442 was disbursed (\$749,496 in FY 2017-18, and \$1,640,946 in FY 2018-19). In addition, verified that AC HCSA expended \$2,390,442 in Proposition 47 SNSF grant funds, 749,496 in FY 2017-18, and \$1,640,946 in FY 2018-19, and expended no Proposition 47 SNSF grant funds in FY 2016-17;
- Conducted a risk assessment and reviewed internal controls for Proposition 47 SNSF grant expenditures to determine the nature, timing, and extent of substantive testing;
- To reduce audit risk, we tested sample transactions, traced those transactions to supporting documentation, and performed analytical procedures and budgetary analyses:
 - We used a judgmental (non-statistical) sampling approach to select samples that supported our audit conclusions, and to ensure that the samples selected were representative of the population and provided sufficient, appropriate evidence;
 - We also tested compliance with applicable laws, regulations, internal policies and procedures, and program requirements. Our audit procedures included interviewing appropriate personnel and inspecting documents, records, and grant agreements;
- We tested \$901,415 of \$2,390,442 in total claimed program costs as follows:
 - Salaries and Benefits – We tested \$105,704 (or 37%) of \$289,561;
 - Professional Services/Public Agency Subcontract Costs – We tested \$100,119 (or 34%) of \$297,906;
 - Community-Based Organization Subcontract Costs – We tested \$499,572 (or 33%) of \$1,496,110;
 - Data Collection and Evaluation Costs – We tested \$27,938 (or 20%) of \$138,472;
 - Indirect Costs – We tested all \$166,775; and
 - Other Costs (Travel, Training, etc.) – We tested \$1,307 (or 81%) of \$1,618.

Errors found, if any, were not projected to the intended (total) population.

We did not examine the information-system controls or the economy, efficiency, or effectiveness of the program. Our audit of the program was related solely to program expenditures as required by GC section 7599.2(c).

We did not audit AC HCSA's financial statements. We limited our audit scope to planning and performing audit procedures necessary to achieve our audit objective. In addition, our review of internal control was limited to gaining an understanding of the transaction flows and financial-management accounting system, and performing limited tests of controls regarding AC HCSA's ability to accumulate and segregate reasonable and allowable program costs.

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 objective. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

We verified that during the period of July 1, 2016, through June 30, 2019, the BSCC awarded AC HCSA with \$6,000,000 in Proposition 47 SNSF grant funds, of which \$2,390,442 was disbursed (\$749,496 in FY 2017-18 and \$1,640,946 in FY 2018-19). In addition, we verified that AC HCSA expended \$2,390,442 in Proposition 47 SNSF grant funds (749,496 in FY 2017-18 and \$1,640,946 in FY 2018-19) and expended no Proposition 47 SNSF grant funds in FY 2016-17 in compliance with GC section 7599.2(b).

Our audit also found that during the period of July 1, 2016, through June 30, 2019, AC HCSA:

- Did not adequately account for grant fund expenditures, specifically CBO subcontractor flexible-fund costs totaling \$79,614; and
- Did not ensure that program funds were disbursed and expended in accordance with program guidelines and grant requirements, and as required by GC section 7599.2(c).

The finding is quantified in the Schedule and described in the Finding and Recommendation section of this report.

Except as noted in the finding, AC HCSA's claimed grant expenditures were in compliance with applicable laws, regulations, program guidelines, and the grant agreement.

Follow-up on Prior Audit Findings

There have been no prior audits of AC HCSA's Proposition 47 SNSF Grants Program; therefore, we did not perform any follow-up activity.

Views of Responsible Officials

We issued a draft report on September 9, 2020. Colleen Chawla, Director, and Karyn L. Tribble, PsyD, LCSW, Director, responded by letter dated September 18, 2020 (Attachment), disagreeing with the audit results. This final audit report includes AC HCSA's response.

Restricted Use

This audit report is intended solely for the information and use of AC HCSA and the SCO; it is not intended to be and should be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record, and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

November 12, 2020

Schedule—
Summary of Grant Awards, Amounts Disbursed and
Expended, and Questioned Costs
July 1, 2016, through June 30, 2019

<u>Program Cost Element</u>	<u>SNSF Grant Awarded</u>	<u>SNSF Grant Disbursed³</u>	<u>SNSF Grant Expended</u>	<u>Allowable per Audit</u>	<u>Questioned Costs</u>	<u>Reference⁵</u>
<u>FY 2016-17</u>						
Alameda County Health Care Services Agency ²	\$ 6,000,000	N/A	N/A	N/A	N/A	
Total for FY 2016-17	\$ 6,000,000	N/A	N/A	N/A	N/A	
<u>FY 2017-18</u>						
Salaries and Benefits	N/A	\$ 134,124	\$ 134,124	\$ 134,124	N/A	
Services and Supplies	N/A	N/A	N/A	N/A	N/A	
Professional Services/ Public Agency						
Subcontractors	N/A	179,670	179,670	179,670	N/A	
CBO Subcontractors	N/A	242,499	242,499	190,665	\$ 51,834	Finding
Indirect Costs	N/A	138,460	138,460	134,573	3,887	Finding
Data Collection and Evaluation	N/A	54,125	54,125	54,125	N/A	
Fixed Assets/ Equipment	N/A	N/A	N/A	N/A	N/A	
Other	N/A	618	618	618	N/A	
Total for FY 2017-18	N/A	\$ 749,496	\$ 749,496	\$ 693,775	\$ 55,721	
<u>FY 2018-19</u>						
Salaries and Benefits	N/A	\$ 155,437	\$ 155,437	\$ 155,437	N/A	
Services and Supplies	N/A	N/A	N/A	N/A	N/A	
Professional Services/ Public Agency						
Subcontractors	N/A	118,236	118,236	118,236	N/A	
CBO Subcontractors	N/A	1,253,611	1,253,611	1,231,385	22,226	Finding
Indirect Costs	N/A	139,214	139,214	137,547	1,667	Finding
Data Collection and Evaluation	N/A	84,347	84,347	84,347	N/A	
Fixed Assets/ Equipment	N/A	N/A	N/A	N/A	N/A	
Other		1,000	1,000	1,000		
Reconciliation of indirect costs ⁴	N/A	(110,899)	(110,899)	(110,899)	N/A	
Total for FY 2018-19	N/A	\$ 1,640,946	\$ 1,640,946	\$ 1,617,053	\$ 23,893	
Grand Total	\$ 6,000,000	\$ 2,390,442	\$ 2,390,442	\$ 2,310,828	\$ 79,614	

¹ Numbers rounded to the nearest whole dollar.

² For the period of July 1, 2016, through June 30, 2019, the BSCC awarded AC HCSA with \$6,000,000 in Proposition 47 SNSF grant funds, of which \$749,496 was disbursed in FY 2017-18 and \$1,640,946 was disbursed in FY 2018-19. No Proposition 47 SNSF grant funds were expended in FY 2016-17.

³ We verified the accuracy of Proposition 47 SNSF grants disbursed and expended by reconciling Proposition 47 SNSF grant records to AC HCSA's financial and accounting reports.

⁴ Overpayment of indirect costs on invoices Nos. 1 through 5, which was deducted from invoice No. 6.

⁵ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Program
expenditures
claimed were not
supported by
sufficient financial
and/or accounting
records in
FY 2017-18 and
FY 2018-19**

AC HCSA did not adequately account for the CBO subcontractors' costs of \$74,060 and the associated indirect costs of \$5,554, totaling \$79,614, charged to the Prop 47 SNSF Grants Program.

Our tests of the CBO subcontractors' claimed costs disclosed that AC HCSA did not maintain sufficient documentation for grant reimbursement. Specifically, AC HCSA did not maintain documentation for flexible-fund expenditures incurred by two CBOs, La Familia and Bay Area Community Services. These CBOs provided direct support services related to Proposition 47 basic needs and expenses. During the audit period, the AC HCSA staff obtained a Flexible Fund log sheet with itemized expenses, but did not request that the CBOs provide any source documents such as invoices, receipts, justification memos, or proofs of payment to support the Flexible Fund claimed costs of \$74,060.

We judgmentally selected 55 transactions from two billed invoices with flexible-fund expenses for tests, totaling \$20,191. We requested and obtained source documents from the CBO subcontractors for the selected transactions. Out of the 55 selected transactions tested, which included food purchases, motel stays, staff pre-paid visa cards, and supplies, we found that 52 transactions had one or more of the following issues:

- Lack of invoice or receipt for the purchases;
- Lack of a justification memo explaining how the purchases were appropriate, reasonable, and necessary for Proposition 47 clients' treatment needs;
- Lack of evidence showing that the expenditures were for Proposition 47 clients;
- Ineligible meal purchases for the CBO's program staff and/or Proposition 47 clients' family members; and
- Flexible-fund expense forms were not properly completed and/or properly authorized and approved by management.

AC HCSA staff members did not review reimbursement requests for completeness, accuracy, and compliance with the grant agreement in order to verify that claimed costs were eligible and supported by sufficient documentation. AC HCSA approved all Flexible Fund expenditure claims and billed BSCC for program reimbursements. We therefore questioned the unsupported CBO subcontract costs of \$74,060 and the 7.5% associated indirect costs of \$5,554.

Unsupported CBO costs of \$74,060 were charged to the Prop 47 SNSF Grants Program as follows:

CBO	Cost Category	Costs
La Familia	Flex Funds	\$ 32,781
Bay Area Community Services	Flex Funds	<u>41,279</u>
Total Unsupported CBO Subcontractor Costs		<u><u>\$ 74,060</u></u>

Total unsupported program costs totaling \$79,614 were as follows:

Category	Costs
Unsupported CBO Subcontract Costs	\$ 74,060
Associated Indirect Costs	<u>5,554</u>
Total Unsupported Program Costs	<u><u>\$ 79,614</u></u>

AC HCSA did not comply with the terms of its grant agreement with BSCC.

BSCC Grant Agreement No. 534-17, Exhibit A–Scope of Work, section 6–Project Records, states, in part:

- (B) The Grantee shall establish separate accounting records and maintain documents and other evidence sufficient to properly reflect the amount, receipt, and disposition of all project funds, including grant funds and any matching funds by the Grantee and the total cost of the project. Source documentation includes copies of all awards, applications, approved modifications, financial records and narrative reports.

BSCC Grant Agreement No. 534-17, Exhibit B–Budget Detail and Payment Provisions, section 4–Project Costs, states, in part:

- (A) Grantee is responsible for ensuring that actual expenditures are for eligible project costs.
- (B) Grantee is responsible for ensuring that invoices submitted to the BSCC claim actual expenditures for eligible project costs.
- (C) Grantee shall, upon demand, remit to the BSCC any grant funds not expended for eligible project costs or an amount equal to any grant funds expended by the Grantee in violation of the terms, provisions, conditions or commitments of this Grant Agreement.

BSCC Grant Agreement No. 534-17, Exhibit D–Special Terms and Conditions, section 6–Accounting and Audit Requirements, states, in part:

- (A) Grantee agrees that accounting procedures for grant funds received pursuant to this Grant Agreement shall be in accordance with generally accepted government accounting principles and practices, and adequate supporting documentation shall be maintained in such detail as to provide an audit trail. Supporting documentation shall

permit the tracing of transactions from such documents to relevant accounting records, financial reports and invoices.

Recommendation

We recommend that AC HCSA:

- Review and examine supporting documentation for the CBO subcontractor costs of \$74,060 for flexible funds to ensure that all CBO subcontractor costs charged to the Proposition 47 SNSF Grants Program are eligible, allowable, supported, reasonable, properly recorded, and in accordance with grant agreement and program requirements;
- Remit to the BSCC the CBO subcontractor claimed costs and associated indirect costs not expended for eligible project costs that are in violation of the terms, provisions, conditions, or commitments of the Grant Agreement; and
- Conduct robust and comprehensive reviews of the CBO subcontractor flexible-fund costs and supporting documentation for Proposition 47 grant reimbursement claims.

AC HCSA Response

AC HCSA disagrees with the finding of inadequately accounting for the community-based organization (CBO) subcontractors' costs of \$74,060 and the associated indirect costs of \$5,554, totaling \$79,614, charged to the Prop 47 SNSF Grants Program. AC HCSA asserts that the expenditures were supported by sufficient documentation to identify the client, client eligibility, expenditure eligibility under Propositions 47, the purpose of the expenditure, and the appropriate approvals.

See the attachment for AC HCSA's complete response.

SCO Comment

Our finding remains unchanged. AC HCSA obtained a summary spreadsheet of the expenses only prior to paying the CBOs. AC HCSA should have obtained source documents such as invoices, receipts, justification memos, and proofs of payment. If not mitigated, this control deficiency leaves Proposition 47 SNSF grant at risk of additional improper payments. We eventually obtained documentation to support some of the costs that AC HCSA disputes; however, an audit would not necessarily include reviewing all supporting documents. We agree that AC HCSA should review and discuss these costs with BSCC prior to remitting any costs that are in violation of the terms, provisions, conditions or commitments of the Grant Agreement.

**Attachment—
Alameda County Health Care Services Agency’s Response to
Draft Audit Report**



September 18, 2020

Andrew Finlayson, Chief
State Agency Audits Bureau, State Controller's Office, Division of Audits
P.O. Box 942850
Sacramento, California 94250

SUBJECT: Response to draft report of audit for Alameda County Health Care Services Agency's Proposition 47 Safe Neighborhoods and Schools Fund (SNSF) grant for the period July 1, 2016 – June 30, 2019

Dear Mr. Finlayson:

It is the privilege of the Alameda County Health Care Services Agency (ACHCSA) to receive the Proposition 47 grant through the Board of State and Community Corrections (BSCC). ACHCSA appreciates the opportunity to have worked closely with the State Controller's Office (SCO) during this audit process. ACHCSA has thoroughly reviewed and internally discussed the audit findings. Our response to the audit report follows.

Response to Findings:

ACHCSA disagrees with the finding of inadequately accounting for the community-based organization (CBO) subcontractors' costs of \$74,060 and the associated indirect costs of \$5,554, totaling \$79,614, charged to the Prop 47 SNSF Grants Program. ACHCSA asserts that the expenditures were supported by sufficient documentation to identify the client, client eligibility, expenditure eligibility under Propositions 47, the purpose of the expenditure, and the appropriate approvals. ACHCSA examined the 52 questioned transactions and found that:

- Transactions cited for lack of receipt for the purchases: SCO identified seven expenditures (\$4,605.02) as lacking an invoice or receipt. ACHCSA responds that only two expenditures lacked an invoice or receipt. One was for a prepaid VISA card used by CBO staff to buy basic needs items for clients, for which the receipt was documented through a different process because they are purchased in advance.
- Transactions cited for lack of a justification memo explaining how the purchases were appropriate, reasonable, and necessary for Proposition 47 clients' treatment needs: SCO identified nineteen expenditures (\$16,794.11) lacking a justification memo. ACHCSA responds that all but four included documentation stating the reason for the expenditure. The grant guidelines do not state that a "justification memo" is required to document Flexible Funds expenditure.
- Transactions cited for lack of evidence showing that the expenditures were for Proposition 47 clients: SCO identified twenty expenditures (\$18,344.11) lacking evidence showing that the expenditures were for Proposition 47 clients. ACHCSA responds that *all* expenditures paid were identified for Prop 47 clients. CBO provides ACHCSA with a monthly log identifying all expenditures and the client for whom the expenditures were made. In addition, CBO internal check request documents include client initials.
- Transaction cited for Flexible-Fund expense forms were not properly completed and/or properly authorized and approved by management: (Note: SCO did not list the number of transactions purportedly with this deficiency in its findings.) These expense forms were created by the CBO for internal processing, so completion and "proper" authorization/approval were not required by the

grant agreement to justify expenses. ACHCSA asserts that all expense forms contained sufficient information for ACHSA to identify the client, payee, expenditure amount, purpose of the expenditure, person requesting reimbursement for the expense, and approver – even though some expense forms had missing fields. In addition, copies of invoices, receipts, and checks supported the forms in most cases.

In summary, ACHCSA identified \$1,227.37 of expenses, \$92.05 of indirect cost totaling \$1,319.42 that are valid under the terms of the grant agreement but are questionable charges for discussion with BSCC. ACHCSA maintains that it complied with the terms of the grant agreement:

- **Grant Agreement No. 534-17, Exhibit A–Scope of Work, Section 6–Project Records:**
ACHCSA established accounting records, maintained documents, and other evidence sufficient to reflect the amount, receipt, and disposition of all project funds, including requiring its subcontractors maintain all records and supporting documents.
- **Exhibit B–Budget Detail and Payment Provisions, Section 4–Project Costs:**
ACHCSA ensured that actual expenditures and invoices submitted were for eligible project costs by reviewing subcontractor invoices for eligible expenses.
- **Exhibit D–Special Terms and Conditions, Section 6–Accounting and Audit Requirements:**
ACHCSA followed accounting procedures in accordance with generally accepted government accounting principles and practices and ensured that adequate supporting documentation be maintained by its sub-contractors in sufficient detail to provide an audit trail.

Response to Recommendations:

1. ACHCSA has reviewed the supporting documentation for the CBO subcontractor costs, and will discuss questioned items with BSCC and respond accordingly.
2. ACBH will remit to BSCC any costs that the BSCC determines to be in violation of the terms, provisions, conditions or commitments of the Grant Agreement.
3. ACHCSA will continue to review all Prop 47 flexible fund costs on a monthly basis for programmatic and fiscal validity. In addition, ACBH will review the supporting documentation samples on a periodic basis, as well as all supported documentation for flexible fund costs that exceed a category-specific "reasonable" limit.

Thank you for the opportunity to review and respond to the audit findings. If you have any questions, please contact Paul Nichols at (510) 383-1534.

Sincerely,

DocuSigned by:

C0204AE04C204005

Colleen Chawla, Director
Alameda County Health Care Services Agency

DocuSigned by:

DA167CA0C00444A

Karyn L. Tribble, PsyD, LCSW, Director
Alameda County Behavioral Health Care Services

cc: James Wagner, Deputy Director/Clinical Operations, ACBH
Imo Momoh, Deputy Director/Plan Administrator, ACBH
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Jill Louie, Budget and Fiscal Services Director, ACBH
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