

MONTEREY COUNTY

Audit Report

PERINATAL SERVICES PROGRAM

Chapter 1603, Statutes of 1990

July 1, 2001, through June 30, 2004



STEVE WESTLY
California State Controller

April 2006



STEVE WESTLY
California State Controller

April 19, 2006

The Honorable Michael J. Miller
Auditor-Controller
Monterey County
P.O. Box 390
Salinas, CA 93902

Dear Mr. Miller:

The State Controller's Office audited the costs claimed by Monterey County for the legislatively mandated Perinatal Services Program (Chapter 1603, Statutes of 1990) for the period of July 1, 2001, through June 30, 2004.

The county claimed \$749,774 for the mandated program. Our audit disclosed that \$11,119 is allowable and \$738,655 is unallowable. The unallowable costs occurred because the county claimed unsupported costs. The State paid the county \$100,867. The amount paid exceeds allowable costs claimed by \$89,748.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/jj:vb

cc: Charles Vold, Controller
Natividad Medical Center
Noreen Woodfin
Accounting Analyst
Auditor-Controller's Office
Monterey County
James Tilton, Program Budget Manager
Corrections and General Government
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Monterey County for the legislatively mandated Perinatal Services Program (Chapter 1603, Statutes of 1990) for the period of July 1, 2001, through June 30, 2004. The last day of fieldwork was April 21, 2005.

The county claimed \$749,774 for the mandated program. Our audit disclosed that \$11,119 is allowable and \$738,655 is unallowable. The unallowable costs occurred because the county claimed unsupported costs. The State paid the county \$100,867. The amount paid exceeds allowable costs claimed by \$89,748.

Background

Chapter 1603, Statutes of 1990, added *Health and Safety Code* Sections 10901(a), (b), and (c). The legislation requires each county to comply with the requirements below. (Chapter 415, Statutes of 1995, subsequently deleted these sections and added the same requirements in *Health and Safety Code* Sections 123605(a), (b), and (c).)

- (a) Each county shall establish protocols between county health departments, county welfare departments, and all public and private hospitals in the county, regarding the application and use of an assessment of the needs of, and a referral for, a substance-exposed infant to a county welfare department pursuant to Section 11165.13 of the *Penal Code*.
- (b) The assessment of the needs shall be performed by a health practitioner, as defined in Section 11165.8 of the *Penal Code*, or a medical social worker. The needs assessment shall be performed before the infant is released from the hospital.
- (c) The practitioner performs the needs assessment in order to:
 1. Identify needed services for the mother, child, or family, including, where applicable, services to assist the mother caring for her child and services to assist in maintaining children in their homes.
 2. Determine the level of risk to the newborn upon release to the home and the corresponding level of services and intervention, if any, necessary to protect the newborn's health and safety, including a referral to the county welfare department for child welfare services.
 3. Gather data for information and planning purposes.

On February 22, 1993, the Commission on State Mandates (COSM) ruled that Chapter 1603, Statutes of 1990, resulted in state-mandated costs that are reimbursable pursuant to *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines criteria for reimbursement. COSM adopted *Parameters and Guidelines* on September 23, 1993. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Perinatal Services Program for the period of July 1, 2001, through June 30, 2004.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the county's representative to submit a written representation letter regarding the county's accounting procedures, financial records, and mandated cost claiming procedures as recommended by *Government Auditing Standards*. However, the county declined our request.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Monterey County claimed \$749,774 for costs of the Perinatal Services Program. Our audit disclosed that \$11,119 is allowable and \$738,655 is unallowable.

For fiscal year (FY) 2001-02, the State paid the county \$100,798. Our audit disclosed that \$3,549 is allowable. The county should return \$97,249 to the State.

For FY 2002-03, the State paid the county \$69. Our audit disclosed that \$4,284 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,215, contingent upon available appropriations.

For FY 2003-04, the State made no payments to the county. Our audit disclosed that \$3,286 is allowable. The State will pay that amount to the county, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on December 23, 2005. Charles Vold, Controller at Monterey County's Natividad Medical Center, responded by letter dated February 28, 2006, agreeing with the findings in the draft report. Mr. Vold stated that the county would, in the near future, submit for SCO approval a time study to more accurately reflect the county's costs in providing perinatal services, and would apply those results to the audit period. We agreed to reissue the final report if the results of a valid time study affect the audit results. The county's response is included as an attachment to this final audit report.

Restricted Use

This report is solely for the information and use of Monterey County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

**Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2004**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Labor costs:				
Initial in-hospital screening	\$ 92,165	\$ —	\$ (92,165)	Finding 1
Toxicology screening	16,109	—	(16,109)	Finding 1
Perinatal assessment	3,232	—	(3,232)	Finding 1
Total labor costs	111,506	—	(111,506)	
Services and supplies	33,750	3,549	(30,201)	Finding 2
Indirect costs	41,591	—	(41,591)	Finding 1
Total costs	<u>\$ 186,847</u>	3,549	<u>\$ (183,298)</u>	
Less amount paid by the State		<u>(100,798)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (97,249)</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Labor costs:				
Initial in-hospital screening	\$ 134,764	\$ —	\$ (134,764)	Finding 1
Toxicology screening	22,860	—	(22,860)	Finding 1
Perinatal assessment	5,008	—	(5,008)	Finding 1
Total labor costs	162,632	—	(162,632)	
Services and supplies	50,435	4,284	(46,151)	Finding 2
Indirect costs	76,030	—	(76,030)	Finding 1
Total costs	<u>\$ 289,097</u>	4,284	<u>\$ (284,813)</u>	
Less amount paid by the State		<u>(69)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,215</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Labor costs:				
Initial in-hospital screening	\$ 142,008	\$ —	\$ (142,008)	Finding 1
Toxicology screening	21,067	—	(21,067)	Finding 1
Perinatal assessment	5,316	—	(5,316)	Finding 1
Total labor costs	168,391	—	(168,391)	
Services and supplies	38,504	3,286	(35,218)	Finding 2
Indirect costs	66,935	—	(66,935)	Finding 1
Total costs	<u>\$ 273,830</u>	3,286	<u>\$ (270,544)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 3,286</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Labor costs:				
Initial in-hospital screening	\$ 368,937	\$ —	\$ (368,937)	Finding 1
Toxicology screening	60,036	—	(60,036)	Finding 1
Perinatal assessment	<u>13,556</u>	<u>—</u>	<u>(13,556)</u>	Finding 1
Total labor costs	442,529	—	(442,529)	
Services and supplies	122,689	11,119	(111,570)	Finding 2
Indirect costs	<u>184,556</u>	<u>—</u>	<u>(184,556)</u>	Finding 1
Total costs	<u>\$ 749,774</u>	11,119	<u>\$ (738,655)</u>	
Less amount paid by the State		<u>(100,867)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (89,748)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Labor costs
unsupported**

The county claimed all labor costs based on after-the-fact estimates of time spent by county hospital staff in performing the mandated activities. The county/hospital did not maintain contemporaneous time distribution records that showed the actual time spent by each staff member involved in the applicable activities. Consequently, all of the labor costs claimed, totaling \$442,529, are unallowable. The related indirect costs are \$184,556.

Parameters and Guidelines for the mandated program specifies that only actual increased costs incurred in the performance of the mandated activities are reimbursable. Further, it specifies that actual employee labor hours are reimbursable when the county documents them using timesheets or a proper time study.

As the county maintained no time records, all of the labor costs are unsupported. Also, because the county claimed indirect costs as a percentage of labor, those costs are also unsupported.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Labor costs:				
Initial in-hospital screening	\$ (92,165)	\$(134,764)	\$(142,008)	\$(368,937)
Toxicology screening	(16,109)	(22,860)	(21,067)	(60,036)
Perinatal assessment	(3,232)	(5,008)	(5,316)	(13,556)
Total labor costs	(111,506)	(162,632)	(168,391)	(442,529)
Indirect costs	(41,591)	(76,030)	(66,935)	(184,556)
Audit adjustment	<u>\$(153,097)</u>	<u>\$(238,662)</u>	<u>\$(235,326)</u>	<u>\$(627,085)</u>

Even if the county had supported the hospital’s labor costs, we would have had to adjust costs due to the following errors in the county’s claims.

Error 1—The county claimed salary costs using average salaries for all nursing staff and an estimate of annual productive labor hours. As a result, the county understated salary and benefit costs for nurses’ time for the audit period by \$16,661.

Error 2—The county claimed costs for initial in-hospital screenings for the deliveries and prenatal visits of all mothers-to-be, not just for mothers-to-be whose prenatal records, or lack thereof, indicated that they were at-risk for drug use. We limited allowable costs to the costs of initial screenings of mothers-to-be whose newborn babies received a toxicology screening at birth. As a result, the county overstated costs during the audit period by \$375,327.

Error 3—The county claimed all of the toxicology and confirmation tests on mothers-to-be during prenatal care and on their newborns. We limited allowable costs to tests on newborns only. As a result, the county overstated costs during the audit period by \$34,535.

Error 4—The county claimed perinatal assessments for both the mothers and their newborns even though the county performs only one assessment. As a result, the county overstated costs during the audit period by \$6,641.

Error 5—The county made the following errors in the indirect cost rate proposals (ICRPs) it submitted with its claims. As a result, the county overstated indirect costs during the audit period by \$173,107.

- The direct salary base the county used to compute the indirect cost rates did not include the salary costs of contract employees, who are paid by the hour and don't receive fringe benefits.
- The county included countywide cost allocation plan costs in both direct costs and the indirect cost pool.

The differences in the claimed and audited indirect cost rates are as follows.

	Fiscal Year		
	2001-02	2002-03	2003-04
Claimed indirect cost rate	37.30%	46.75%	39.75%
Audited indirect cost rate	24.43%	28.88%	26.58%
Difference	12.87%	17.87%	13.17%

Recommendation

We recommend that the county ensure that all costs claimed are eligible increased costs incurred as a result of the mandate and that they are supported by appropriate documentation.

County's Response

The county agreed with the finding.

SCO's Comment

The finding and recommendation remain unchanged.

**FINDING 2—
Services and supplies
costs overstated**

The county overstated claimed costs for toxicology screening tests by \$111,570 by erroneously including county labor charges already claimed in the labor category.

Parameters and Guidelines specifies that only actual increased costs that are incurred in the performance of the mandated activities and that are adequately documented are reimbursable.

As a result, we adjusted claimed costs as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Services and supplies	\$ (30,201)	\$ (46,151)	\$ (35,218)	\$ (111,570)

Recommendation

We recommend that the county ensure that all costs claimed are eligible increased costs incurred as a result of the mandate and that they are supported by appropriate documentation.

County’s Response

The county agreed with the finding.

SCO’s Comment

The finding and recommendation remain unchanged.

**Attachment—
County’s Response to
Draft Audit Report**

Natividad
Medical Center

1441 Constitution Blvd. ♦ Salinas, California 93906
P.O. Box 81611 ♦ Salinas, California 93912-1611

February 28, 2006

Mr. James L. Spano, Chief, Compliance Audits Bureau
Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano;

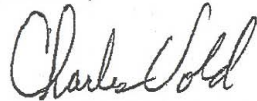
We are in receipt of the draft of the Perinatal Services Program audit report for Monterey County for the period beginning July 2001, through June 30, 2004. (Three fiscal years)

We concur with the audit findings as presented in the report.

Based on discussions with personnel at the State Controllers Office, Division of Audits, we understand that we have the opportunity to submit an approved time study to more accurately reflect Natividad's costs in the SB 90 report for perinatal services and to apply those results retroactively to these audits that have been completed.

We will be submitting our draft of a time study for your review and approval within the next three months.

Sincerely



Charles Vold CPA
Hospital Controller

Cc: via email
Michael Miller, Monterey County, Auditor Controller
Al Freidrich, Monterey County, Assistant Auditor Controller
Chad Chadwick, CEO, Natividad Medical Center
Barbara Messer, Assistant Administrator, Natividad Medical Center
Brad Burgess, PRM
Mike Querin, State Controllers Office
Rosemary Maron, State Controllers Office
Judy Rasmussen, NMC
Carol Statham, Auditors Office

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