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**SAPC INFORMATION NOTICE 25-07**  
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**TO:** Los Angeles County Substance Use Continuum  
Contracted Service Provider Agencies

**FROM:** Gary Tsai, M.D., Director   
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**SUBJECT:** **ANNUAL FISCAL COMPLIANCE REVIEWS FOR SUBSTANCE USE  
PREVENTION, HARM REDUCTION, TREATMENT, AND RELATED SERVICE  
AGREEMENTS**

The Los Angeles County Department of Public Health, Substance Abuse Prevention and Control Bureau (SAPC) is responsible for administering the County's continuum of substance use prevention, harm reduction, treatment and other related services and operationalizes this through a network of contracted provider agencies. In this role, SAPC is committed to ensuring responsible and effective stewardship of public funds and establishing service standards to support high quality services. Additionally, provider agencies are required to have administrative and financial systems to support strong and viable organizational structures.

SAPC partners with the Los Angeles County Auditor-Controller (A-C) to conduct Fiscal Compliance Reviews which assess provider agencies' financial infrastructure to confirm adherence to relevant regulations and identify areas of compliance and opportunities for improvement. SAPC's Finance Services Division leads the Fiscal Compliance Reviews and works with both A-C and provider agency staff throughout the process to ensure alignment on any required actions to strengthen financial infrastructure.

Fiscal Compliance Reviews are based on the need to protect and safeguard County investments by ensuring that agencies that receive public funds have systems in place to properly track and report revenue and expenditures, remain in compliance with relevant policies and regulations, and sustain fiscal viability to ensure consistent services to the community. Regulations that mandate, guide, and inform Fiscal Compliance Reviews include, but are not limited to:

- SAPC Service Agreement(s) and/or Contract(s)
- [Office of Management and Budget \(OMB\) Circular](#)
- [Los Angeles County Department of Auditor-Controller's Contract Accounting and Administration Handbook](#)

- [County of Los Angeles' County Fiscal Manual](#)
- [Federal Register](#)

### **Fiscal Compliance Documentations**

SAPC and the A-C will request documents from provider agencies in advance of a regularly scheduled Fiscal Compliance Review visit. The requested documents are used to determine the provider agency's fiscal organizational health and adequacy of internal controls. The documents used during the visit(s) are in alignment with Generally Accepted Accounting Principles and are part of any standard fiscal review. SAPC must ensure that the County's contracts/agreements are thoroughly reviewed for every fiscal year the contract/agreement was active.

SAPC has worked with the A-C to review the required documentations and reduce redundancies. Attachment A provides a list of documents needed for the Fiscal Compliance Review and provides additional guidance to facilitate the process. Provider agencies are encouraged to work with their fiscal staff to establish and maintain these documents.

### **Preparing For Your Fiscal Compliance Reviews**

As with all compliance reviews, the goal is to partner with provider agencies and identify both strengths and weaknesses in their internal processes and controls. This allows provider agencies to build off successes to further strengthen the organization's oversight while identifying areas that pose potential risks. Provider agencies can take proactive steps by working with relevant staff to establish the needed internal controls to have a successful visit.

The table below is a guide to begin the internal review. The items listed were identified by reviewing prior A-C Fiscal Compliance Review Reports and found to be the most common areas of deficiencies:

FOCUS AREA	REGULATIONS	DESCRIPTION
Cost Allocation	A-C Handbook, Section C.2.5 titled, "Cost Allocation Plan"  Office of Management and Budget (OMB) Circular (i.e., A-87 and A-122)	A Cost Allocation Plan is required and provider agencies need to allocate actual expenditures that benefit the program(s) and/or funding source(s) and must ensure the indirect cost allocation is clearly described and allocated properly.
Supported Expenditures	A-C Handbook, Sections C.1.5 titled, "Necessary, Proper and Reasonable"  OMB Uniform Guidance Sections <a href="#">200.404</a> and <a href="#">200.405</a>	Ensure that only expenditures that are necessary, proper, and reasonable to carry out the purpose and activities of the program are billed to the program and can be fully supported with acceptable documentations.

Internal Controls	A-C Handbook, Section B titled, "Internal Controls"	Public funds are an important resource that must be carefully handled. Provider agencies are required to establish formal policies and protocols to ensure the safe and appropriate use of funds, including but not limited to, cash handling, disbursements, separation of duties, reconciliation, timekeeping, and financial reporting.
Accounting and Fiscal Reporting	Per A-C Handbook, Section A.2.0 titled, "Accounting System"  Service Contract/Agreement, Paragraph "Record Retention and Audits", sub-paragraph "Financial Records"	It is critical to have adequate financial systems and reports to capture revenues and expenditures. Provider agencies must ensure these are in place at all times and not just to successfully respond to A-C requests, and to ensure availability of fiscal information needed to run the organization. Examples include, but are not limited to: General Journal, Cash Receipts Journal, General Ledger, Chart of Account, Payroll Register, and Cash Disbursements Journal.
Fiscal Viability	Paragraph "Invoices and Payment", sub-paragraph "Fiscal Viability"	As SAPC's network continues to grow, it must confirm that when the County invests public funds, it is partnering with an agency that is viable and will be able to achieve long-term goals. To confirm this, provider agencies must demonstrate fiscal viability by maintaining a 60-day reserve in managing debt and securing assets.

### **Resolutions to A-C Audit Recommendations**

As with any compliance review, there may be instances where findings result in the need to establish a Corrective Action Plan (CAP) and/or recoup funds. The SAPC Finance Services Division leads the development, implementation, and resolution of any required CAP resulting from a Fiscal Compliance Review. Provider agencies are assigned a Fiscal Compliance Analyst to collaborate with to review the proposed resolution(s) and ensure finding(s) are fully addressed. As all A-C Fiscal Compliance Review Reports are shared with County Board Offices, some reports may be flagged by County leadership due to the nature of the finding(s). Provider agencies need to respond timely to requests and resolutions to minimize follow-up and status reports.

As stated above, some of the Fiscal Compliance Review findings mandate that funds be recouped from provider agencies. Though this document/notice is designed to provide prevention guidance to avoid such situations, there are certain instances where recoupment of funds is unavoidable. In cases where an audit deficiency results in a disallowance and/or inappropriate allocation of expenditures, the recoupment will be resolved as follows:

- Disallowance related to Prevention Program (Cost Reimbursement) – SAPC will recoup the disallowed amount from provider agency's next monthly payment(s) once the final Fiscal Compliance Review Report has been released by the A-C. Provider agencies must immediately request a Payment Plan from SAPC Finance Service Division via-email at [SAPC-Finance@ph.lacounty.gov](mailto:SAPC-Finance@ph.lacounty.gov) to avoid the disallowance being recouped from a single payment.
- Disallowance related to Drug Medi-Cal and Substance Use Disorder Programs (Billing Rates) – Provider agencies must submit supporting documentation to SAPC Finance Service Division via-email at [SAPC-Finance@ph.lacounty.gov](mailto:SAPC-Finance@ph.lacounty.gov) showing the disallowance is not charged to a SAPC Program or the amount will be recouped from the next payment(s).
- Inappropriate allocation of expenditures – Provider agencies must submit adequate documentation to SAPC Finance Service Division via-email at [SAPC-Finance@ph.lacounty.gov](mailto:SAPC-Finance@ph.lacounty.gov) supporting the reallocation or the disallowed amount will be recouped from the next payment(s).

### **Technical Assistance & Support**

SAPC is committed to supporting provider agencies as they establish strong organizational systems and practices to successfully manage public funds and serve our communities. Provider agencies may reach out to the SAPC Finance Services Division before, during, and after Fiscal Compliance Reviews to ensure alignment on requirements, requests, and/or resolutions. Additionally, the Finance Services Division may assign a Fiscal Compliance Analyst to attend entrance and/or exit conferences for all A-C reviews to gain visibility which will help resolve any required CAP.

Please contact the SAPC Finance Services Division at [SAPC-Finance@ph.lacounty.gov](mailto:SAPC-Finance@ph.lacounty.gov) or (626) 293-2630 for additional information.

GT:dd

Attachment