



County of San Diego

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October 9, 2020

Gerald McFadden, President/CEO
Volunteers of America Southwest
3530 Camino Del Rio North, Suite 300
San Diego, CA 92108

CONTRACT AUDIT OF COUNTY CONTRACT NO. 553470 FY 2018-2019 TO DECEMBER 2019

Dear Mr. McFadden:

We have completed our follow-up on-site visit in connection with the contract audit report on Contract No. 553470 for Fiscal Year 2018-2019 to the present. The report, which was attached as Enclosure #2 to the notice of termination letter issued on January 23, 2020, listed five findings requiring corrective actions.

To recap, on January 31, 2018, an engagement letter initiating a contract audit for fiscal year 2016-2017 through the present was issued. After multiple discussions with the Chief Financial Officer (CFO) and/or Chief Operations Officer (COO) of Volunteers of America Southwest (VOASW), three findings were noted on the report dated August 13, 2018. To date, disallowed costs of \$211,096.80 from Finding 1b are still outstanding and a Payment Demand Letter was issued on May 27, 2020. As a reminder, Finding 1b stated, "It was determined units claimed for the Detox program should not include clients listed under Scripps, UCSD, Federal Probation, and State of California Residential Multi-Service Center (RMSC)," and \$280,749.25 was disallowed based on the following:

Table 1: August 31, 2018 Disallowance Re: Clients of Other Programs

553470 Program	Units Overclaimed	Unit Cost	6/28/2017 In-depth invoice review disallowance	FY 16-17	FY 17-18
Detox	2,658	\$58.96	(1,742.82)	156,715.68	
	1,957	\$64.27			125,776.39

As previously indicated, VOASW acknowledged the overclaimed costs and duplicate billing of \$11,164.13 associated with the Federal Probation units and agreed to refund that amount but disputed the remainder. Initially, VOASW stated that all individuals admitted into the program were County clients, including those listed under Scripps, UCSD and State of California RMSC, stating that expenses for the program were shared and allowable per the Revenue Match and third-party payer language in the County contract. During subsequent meetings it was noted that the State of California RMSC contract was a cost reimbursement contract and client costs were already paid for. VOASW acknowledged that the \$58,488.32 related to State of California RMSC clients should not have been

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claimed to the County contract and concurred that the overclaimed costs and duplicate billing of those clients should also be returned to the County.

VOASW continued to maintain that clients identified as Scripps and UCSD clients could be claimed, contending that the expenses for the program were shared and allowable per the Revenue Match and third-party payer language. Under this explanation, it was agreed that contract auditors would select and validate expenses and ensure that revenue received did not exceed actual program expenses. It was during this process that the issues and/or inconsistencies listed in the Corrective Action Notice dated January 21, 2020 were noted. As a result, we were unable to gain assurance of the accuracy and validity of the program costs reported to the County. In addition, after further reviewing the UCSD contract provided by VOASW, the following requirement was noted, "To be considered an Eligible Patient as defined in Section 1 of this MOU, the patient must...Be determined to be non-funded/self-pay after being financially screened." Therefore, Finding 1b from the August 13, 2018 audit report remains as noted, and the \$211,096.80 is considered outstanding and past due. The County may pursue any and all available legal remedies to collect past due amounts.

Because of the concerns and issues noted with the inability to gain assurance of accurate program costs, the audit was expanded to include fiscal year 2018-2019 through the present, resulting in the additional report dated January 21, 2020 containing five findings. As part of the corrective actions to the report, the recent on-site visits were a final attempt to gain reasonable assurance that expenses claimed to the County were valid and supported with proper documentation. Per verbal discussions with VOASW Counsel, Mr. Lowder, on February 20 and 24, 2020, and subsequent email dated March 10, 2020, VOASW indicated staff had been identified to assist County auditors with obtaining access to documentation to support program costs, and was prepared to participate in an on-site audit by March 25, 2020. Because of the COVID-19 emergency, the on-site visit was delayed until August 11, 2020, with subsequent visits on August 17 and August 26, 2020.

Given VOASW's assertion that staff was prepared to present requested supporting documentation, it was expected and agreed upon that contract auditors would have immediate, direct access to any and all documents that would reliably and accurately support any questioned and/or disallowed costs. In addition, documentation was to be retrieved in the presence of a County employee during the visit; however, that requirement was waived on August 11, 2020 after the current CFO had difficulty retrieving documentation via source systems for the first few transactions selected for testing. VOASW was afforded additional time to retrieve supporting documents that should have been readily available. During the August 17 on-site visit, County auditors requested to speak to VOASW staff with first-hand knowledge of the internal controls in place for the period being tested since the former contact person, the prior CFO, was no longer employed with VOASW. County contract auditors suggested speaking to the COO, since she signed checks for VOASW and signed claims submitted to the County during prior years and one claim in FY 18/19; however, VOASW did not make the COO available for a meeting. At the conclusion of the on-site visit on August 26, 2020, County auditors provided VOASW additional time, until September 9, 2020, to gather any and all supporting documentation to support program costs which had been selected for testing. Despite the additional time allotted to provide requested documentation, several requested items were either missing, incomplete, or insufficient. Given the limited access to further information and due to the fact that the County auditors were unable to gain reasonable assurance of the validity of program costs, we have determined the status of the findings as follows:

Finding 1: Questioned operating costs of \$3,752,345.48, plus corresponding indirect costs.

Inability to gain assurance of submitted operating cost; refund \$3,752,345.48 for FY 18/19 and \$1,452,233.36 for FY 19/20. The documentation that was provided during the most recent on-site visits was insufficient and continued to show a lack of internal controls, deficiencies, and inconsistencies:

- A. The general ledger (G/L) that was supplied during the follow-up site visit on August 11, 2020 did not match the G/L that was previously provided by the former CFO on October 4, 2019. Although the current CFO indicated there was no reason why the G/Ls should differ, it was noted by County auditors that variances in account totals for over 20 categories existed and categories and/or transactions were added and/or removed. In addition, there were over 100 Payee/Vendor discrepancies noted. For example, the October 2019 G/L listed Amazon as the Payee/Vendor for a \$2,576.62 Education Supplies expense. However, JER International Inc. was listed as the Payee/Vendor in the August 2020 G/L. Table 2 below lists a sample of the discrepancies noted by auditors in reconciliation of the two G/L reports:

Table 2: Sample of October 2019 vs August 2020 G/L Discrepancies

TRX Date	Account Description	October 2019 G/L Payee/Vendor	August 2020 G/L Payee/Vendor	Amount
07/06/18	Housekeeping Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,200.00
07/06/18	IT Services - County	NIMER SAIKALY IT	JER INTERNATIONAL, INC.	\$600.00
07/06/18	Recreational/Craft Supplies	HAZELDEN PUBLISHING	JER INTERNATIONAL, INC.	\$1,383.37
07/06/18	Recreational/Craft Supplies	GUILFORD PUBLICATIONS	JER INTERNATIONAL, INC.	\$2,144.80
07/06/18	Recreational/Craft Supplies	AMAZON	JER INTERNATIONAL, INC.	\$2,332.60
07/06/18	Recreational/Craft Supplies	AMAZON	JER INTERNATIONAL, INC.	\$2,300.89
07/06/18	Recreational/Craft Supplies	AMAZON	JER INTERNATIONAL, INC.	\$2,081.60
07/06/18	Recreational/Craft Supplies	AMAZON	JER INTERNATIONAL, INC.	\$2,389.03
07/06/18	Recreational/Craft Supplies	AMAZON	JER INTERNATIONAL, INC.	\$1,859.31
07/10/18	Equipment Fund-Computer Hardware	CIPRUS IT	JER INTERNATIONAL, INC.	\$2,067.45
07/10/18	Housekeeping Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,919.87
07/10/18	Housekeeping Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,177.93
07/10/18	IT Services - County	NIMER SAIKALY IT	JER INTERNATIONAL, INC.	\$840.00
07/10/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$2,328.95
07/10/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,558.63
07/11/18	Equipment Fund-Computer Hardware	CIPRUS IT	JER INTERNATIONAL, INC.	\$2,365.89
07/11/18	Equipment Fund-Computer Hardware	CIPRUS IT	JER INTERNATIONAL, INC.	\$2,143.33
07/12/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$567.98
07/13/18	Educational Supplies	AMAZON	JER INTERNATIONAL, INC.	\$2,140.84
07/13/18	Educational Supplies	AMAZON	JER INTERNATIONAL, INC.	\$2,461.76
07/13/18	Educational Supplies	STAPLES	JER INTERNATIONAL, INC.	\$2,078.34
07/13/18	Educational Supplies	STAPLES	JER INTERNATIONAL, INC.	\$1,353.11
07/13/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,922.44
07/16/18	Equipment Fund-Computer Hardware	CIPRUS IT	JER INTERNATIONAL, INC.	\$1,513.13

TRX Date	Account Description	October 2019 G/L Payee/Vendor	August 2020 G/L Payee/Vendor	Amount
07/16/18	Equipment Fund-Computer Hardware	CIPRUS IT	JER INTERNATIONAL, INC.	\$1,488.38
07/16/18	Housekeeping Supplies	SYSCO	JER INTERNATIONAL, INC.	\$299.95
07/16/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,900.83
07/23/18	Educational Supplies	AMAZON	JER INTERNATIONAL, INC.	\$2,576.63
07/23/18	Educational Supplies	STAPLES	JER INTERNATIONAL, INC.	\$779.24
07/23/18	Equipment Fund-Computer Hardware	CIPRUS IT	JER INTERNATIONAL, INC.	\$1,365.03
07/23/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,936.70
07/31/18	Drug/Medical Supplies	SYSCO	BLANK (credit card payment shows "Npc")	\$319.05
07/31/18	Drug/Medical Supplies	CINTAS	BLANK (credit card payment shows "Sharps Compliance Inc")	\$343.05
07/31/18	Equipment Fund-Computer Hardware	CIPRUS IT	JER INTERNATIONAL, INC.	\$2,278.55
07/31/18	Housekeeping Supplies	CINTAS	JER INTERNATIONAL, INC.	\$897.28
07/31/18	IT Services - County	NIMER SAIKALY IT	JER INTERNATIONAL, INC.	\$2,040.00
07/31/18	IT Services - County	NIMER SAIKALY IT	JER INTERNATIONAL, INC.	\$2,040.00
07/31/18	Janitorial Services	VIP JANITORIAL	BLANK (card transaction print out shows The Home Depot)	\$152.02
07/31/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$757.64
07/31/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,764.66
07/31/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,569.57
07/31/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,720.95
08/14/18	Housekeeping Supplies	SYSCO SAN DIEGO	JER INTERNATIONAL, INC.	\$395.37
08/14/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$2,392.21
08/14/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$995.77
08/14/18	Office Supplies	WALMART	JER INTERNATIONAL, INC.	\$2,373.79
08/14/18	Office Supplies	HOME DEPOT	JER INTERNATIONAL, INC.	\$549.95
08/14/18	Office Supplies	WALMART	JER INTERNATIONAL, INC.	\$1,579.59
08/16/18	Equipment Fund-Computer Hardware	SHI INTERNATIONAL CORP.	JER INTERNATIONAL, INC.	\$2,381.38
08/16/18	Equipment Fund-Computer Hardware	OFFICE 1	JER INTERNATIONAL, INC.	\$1,015.95
08/16/18	Equipment Fund-Computer Hardware	STAPLES	JER INTERNATIONAL, INC.	\$1,815.61
08/16/18	Housekeeping Supplies	SYSCO SAN DIEGO	JER INTERNATIONAL, INC.	\$2,241.04
08/16/18	Housekeeping Supplies	SYSCO SAN DIEGO	JER INTERNATIONAL, INC.	\$502.06
08/16/18	Housekeeping Supplies	SYSCO SAN DIEGO	JER INTERNATIONAL, INC.	\$279.96
08/16/18	Housekeeping Supplies	SYSCO SAN DIEGO	JER INTERNATIONAL, INC.	\$340.87
08/16/18	Housekeeping Supplies	SYSCO SAN DIEGO	JER INTERNATIONAL, INC.	\$99.95
08/16/18	Housekeeping Supplies	SYSCO SAN DIEGO	JER INTERNATIONAL, INC.	\$129.83

TRX Date	Account Description	October 2019 G/L Payee/Vendor	August 2020 G/L Payee/Vendor	Amount
08/16/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,355.07
08/16/18	Minor Supplies	STAPLES	JER INTERNATIONAL, INC.	\$672.70
08/16/18	Minor Supplies	STAPLES	JER INTERNATIONAL, INC.	\$999.90
08/16/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,090.72
08/17/18	Housekeeping Supplies	SYSCO SAN DIEGO	JER INTERNATIONAL, INC.	\$1,850.75
08/17/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,872.58
08/17/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$2,073.96
08/25/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,688.61
08/31/18	Building Maintenance	HELIX MECHANICAL, INC.	MERCADO MECHANIC	\$1,470.00
08/31/18	Equipment Fund-Computer Hardware	AMAZON	JER INTERNATIONAL, INC.	\$1,622.66
08/31/18	Equipment Fund-Computer Hardware	NIMER SAIKALY	JER INTERNATIONAL, INC.	\$2,164.91
08/31/18	Equipment Fund-Computer Hardware	OFFICIA IMAGING	JER INTERNATIONAL, INC.	\$1,407.14
08/31/18	Equipment Fund-Computer Hardware	NIMER SAIKALY	JER INTERNATIONAL, INC.	\$2,119.84
08/31/18	Equipment Fund-Computer Hardware	NIMER SAIKALY	JER INTERNATIONAL, INC.	\$2,338.09
08/31/18	Equipment Fund-Computer Hardware	AMAZON	JER INTERNATIONAL, INC.	\$1,622.66
08/31/18	Equipment Fund-Computer Hardware	NIMER SAIKALY	JER INTERNATIONAL, INC.	\$2,251.47
08/31/18	Equipment Maintenance	HELIX MECHANICAL, INC.	MERCADO MECHANIC	\$2,695.00
08/31/18	Housekeeping Supplies	SYSCO SAN DIEGO	AMERICAN EAGLE INC.	\$1,559.25
08/31/18	Housekeeping Supplies	SYSCO SAN DIEGO	AMERICAN EAGLE INC.	\$554.02
08/31/18	Housekeeping Supplies	SYSCO SAN DIEGO	AMERICAN EAGLE INC.	\$428.70
08/31/18	Minor Supplies	STAPLES	AMERICAN EAGLE INC.	\$970.89
08/31/18	Minor Supplies	CINTAS	AMERICAN EAGLE INC.	\$2,220.10
08/31/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$4,321.97
08/31/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,080.00
08/31/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$4,321.97
08/31/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$4,321.97
08/31/18	Office Supplies	WALMART	AMERICAN EAGLE INC.	\$1,330.30
09/07/18	Minor Supplies	CINTAS	BLANK (invoice provided is for American Eagle)	\$3,190.99
09/11/18	Minor Supplies	CINTAS	invoice provided is for American Eagle	\$3,190.99
09/13/18	Building Maintenance	HELIX MECHANICAL, INC.	MERCADO MECHANIC	\$750.00
09/13/18	Building Maintenance	HELIX MECHANICAL, INC.	MERCADO MECHANIC	\$2,000.00
09/17/18	Housekeeping Supplies	CC	AMERICAN EAGLE INC.	\$17.48
09/18/18	Housekeeping Supplies	CINTAS	AMERICAN EAGLE INC.	\$1,653.38
09/18/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,653.44

TRX Date	Account Description	October 2019 G/L Payee/Vendor	August 2020 G/L Payee/Vendor	Amount
09/19/18	Office Supplies	STAPLES	JER INTERNATIONAL, INC.	\$194.18
09/21/18	Housekeeping Supplies	CINTAS	BLANK (invoice provided is for American Eagle)	\$1,653.38
09/28/18	Office Supplies	STAPLES	AMERICAN EAGLE INC.	\$685.57
09/30/18	Equipment Maintenance	HELIX MECHANICAL, INC.	MERCADO MECHANIC	\$147.00
09/30/18	Equipment Maintenance	HELIX MECHANICAL, INC.	MERCADO MECHANIC	\$1,741.31
09/30/18	Equipment Maintenance	HELIX MECHANICAL, INC.	MERCADO MECHANIC	\$883.95
09/30/18	Equipment Maintenance	HELIX MECHANICAL, INC.	MERCADO MECHANIC	\$2,053.68
09/30/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,554.66
09/30/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$1,124.75
09/30/18	Minor Supplies	CINTAS	JER INTERNATIONAL, INC.	\$3,888.27
TOTAL				\$160,842.37

B. During our review of documentation provided by VOASW, County auditors identified significant conflict of interest concerns. Given the information from above related to G/L inconsistencies, we conducted publicly available research on American Eagle, JER International, Inc. and Mercado Mechanic. Our research revealed the organizations have ties to two current employees of VOASW. Legally filed company information from the State of California website shows each organization lists one of the two VOASW employees as the "Agent for Service of Process". In addition, JER International Inc.'s address on invoices and check payments is the same address on the payroll check of a VOASW employee. It was also noted that approximately 164 transactions, totaling \$274,660.57 were listed in the August 2020 G/L (201 – County Program) under the three Payee/Vendors in various accounts:

Table 3: Sample of Vendor Payments with Conflict of Interest Concerns

Payee/Vendor	# of TRX	Amount	Account Description
American Eagle	22	\$35,404.65	Housekeeping Supplies Office Supplies Minor Supplies Food & Beverages
JER International	125	\$224,214.98	Computer Fees-Computer IT Services-County Educational Supplies Recreational/Craft Supplies Housekeeping Supplies Office Supplies Minor Supplies Equipment Fund-Computer
Mercado Mechanic	17	\$15,040.94	Building Maintenance Equipment Maintenance Mileage/Vehicle Rental
TOTALS		164	\$274,660.57

Due to the concern regarding apparent conflicts of interest, County auditors researched fair market value for prices indicated on the invoices for American Eagle, JER International, and Mercado Mechanic. Our research determined that prices as submitted to the County for reimbursement significantly exceeded fair market value, in some cases more than double. Again, due to these concerns, we asked during our site visit on August 26 for copies of documents that were indicated as available within the VOASW policies, specifically their procurement log, records of procurement, and vendor files. At that time the current CFO and VOASW Counsel communicated to County auditors that these policies were not being followed, and the requested procurement items did not exist.

Additional audit review determined that a VOASW Board member is a Principal, specifically Secretary, of Rezcare Pharmacy Inc., a vendor with whom VOASW purchases pharmacy and over-the-counter medical supplies.

Due to these conflict of interest concerns, we requested copies of annual conflict of interest disclosures, as indicated are required in VOASW Code of Ethics, for 2018, 2019, and 2020. To date, no annual disclosures have been provided.

- C. Audit work additionally identified inadequate controls over review and payment of company credit cards. As previously noted in the January 21, 2020 report, we were unable to identify proper controls regarding written authorizations prior to purchase of goods, documentation of receipt for acceptance of goods and/or services, and segregation of duties regarding authorization, receipt, and payment. Of the 23 direct expenses paid with a credit card that were selected for testing, 22, totaling \$22,119.26, did not have detailed receipts or sufficient documentation and/or had no approval or pre-approval. The VOASW Credit Cards/Purchasing Cards Policy indicates that receipts must be submitted to Fiscal on a weekly basis, and any missing receipts will be required as part of the monthly reconciliation. As such, our review determined that VOASW does not appear to be adhering to their written policy and indicates a general lack of internal controls.
- D. As indicated earlier in this report, the County was unable to gain reasonable assurance as to the accuracy and validity of program costs submitted to the County for reimbursement. In addition to the above noted concerns, we found numerous instances of inadequate supporting documentation, when received, such as:
 - 1) *Food & Beverages* costs of \$45,786.00 in July 2018 and \$37,260.00 in November 2019 were not supported by any detailed documentation for actual food costs.
 - 2) *Client Transportation* costs of \$2,820.00 in May 2019 and \$4,080.00 in July 2019 and *Specific Assistance – Clients* costs of \$3,330.00 in June 2019 were documented as for bus passes. However, evidence of purchase receipt and distribution of passes were not provided. Additionally, VOASW's bus pass policy was requested but not provided.
 - 3) Documentation provided to support a \$12,688.68 December 2018 *Bank Charges & Fees* expense was a "Transaction Entry Zoom" print out, which indicated the amount was a "reclass of Oct-Dec LOC interest." No other documentation or explanation was provided.

- 4) Documentation provided for a \$5,870.00 August 2019 Insurance expense were print outs of a "Quick Journal Posting Journal" and an "Insurance Premium Allocation" worksheet. No other documentation or explanation was provided.
 - 5) Documentation provided for Company Vehicle costs of \$2,011.09 and \$1,619.54, both from July 12, 2019, were "Transaction: Details" print outs. No other documentation or explanation was provided.
 - 6) Documentation provided for a \$2,495.00 Company Vehicle expense with a G/L transaction date of November 30, 2019 was a "Journal Inquiry Report" indicating the expense was reclassified from Fixed Asset Clearing" and a letter from the car dealership indicating the amount was deducted from "CC ending #0046 for a down payment on 9/29/2019 for a leased vehicle here at our dealership." No other documentation or explanation was provided.
- E. Audit work identified multiple instances of inadequate authorization of payments. Of the supporting documentation we did receive, 99 out of 216 direct expense transactions totaling \$393,995.82 did not have proper authorization for payment.
- F. Audit work identified inadequate support for cost allocations. The cost allocation plan provided only has a methodology for sharing costs for rent and utilities. It is unclear how shared costs for other expenses were determined. For example, copier charges for various departments (direct and admin), were split 50/50 between administration (101) and County program (201), but with no methodology or process provided.
- G. As previously noted on our January 21, 2020 report, it appears that both required signatures on a majority of the checks were pre-printed and/or stamped without evidence of a process or procedure for ensuring review by signatory authority occurred prior to stamp. This is a significant internal control weakness.
- H. Our review of supporting documentation determined a lack of internal control over review of invoices. A majority of invoices did not contain: invoice date, evidence of notation of receipt, and/or notation of approval to pay.
- I. We found expenses for travel, lodging and meals that contained no approval, as well as no indication of business purpose or linkage to County contract deliverables.
- J. Late fees were inappropriately charged to the County. During our review of the supporting documentation that was provided, we identified six transactions for which late fees were included and charged to the County and are disallowed per 2 CFR 200 (§200.441).
- K. Lease agreements to support expenses charged to the County were not provided. VOASW claimed rent expenses and their G/L shows monthly payments to Muirland Investments LLC and Pacific Coast Commercial. During the August 11, 2020 on-site audit, VOASW stated that lease agreements were not available. We again requested the lease agreements during the August 17 on-site, and via email on August 20, 2020. To date, lease agreements and/or an explanation supporting these charges were not provided.

Finding 2: Questioned indirect costs of \$1,133,120.00.

Inability to gain assurance of submitted indirect costs; Refund \$1,133,120.00 for FY 18/19 and \$540,693.94 for FY 19/20. In addition to similar concerns listed for direct expenses, the following concerns related to indirect costs were noted:

- A. As noted in Finding 1, the G/L that was supplied during the follow-up on-site visits in August 2020 did not match the G/L that was previously provided by the former CFO on October 4, 2019. Significant variances in accounts, categories and transactions were noted.
- B. Audit work identified disallowed/unallowable costs. For the items requested in which documentation was provided, – 33 items amounting to \$300,351.86, were identified as disallowed/unallowable. Examples are:
- 1) Bad debt expense of \$143,982.49 posted to the G/L on June 30, 2019 – this was also traced as an unreconciled item on the check register on June 30, 2019.
 - 2) Parsonage fees. During the audit period, parsonage fees of \$7,655.48 per month were included in indirect costs allocated to the County. Parsonage is not a requirement or benefit to the County contract and should be excluded from the indirect cost pool.
 - 3) Food and beverages without supporting detail information to include itemized expense and explanation of benefit to County program. (Note: an example of concern included a purchase without itemized receipt at Bevmo, a beverage store most well-known for alcoholic beverage sales.)
 - 4) Legal expenses without explanation of support of County program delivery (e.g. service in “connection with the investigation being conducted by the San Diego District Attorney’s Office related to an audit conducted by the County of San Diego”).
 - 5) Late charges which are generally disallowed per 2 CFR 200 (§200.441) unless prior County approval is obtained.
 - 6) Invoices/itemized receipt to support indirect cost charges not found or not available according to VOASW.
 - 7) Prior year expenses such as FY 17/18 mileage recorded in FY 18/19.
- C. No supporting documentation was provided for 43 requested audit items amounting to \$169,028.09. These sample items were for various expenses such as office supplies, IT services, computer fees/computer software, miscellaneous, food, etc. Absent supporting documentation, items are considered disallowed in total.
- D. Inadequate supporting documentation was provided for 85 requested audit items amounting to \$585,642.07. Specific examples of inadequate documentation include:
- 1) No detailed invoice or itemized receipt.
 - 2) No proof of conference registration and attendance.

- 3) Travel/Lodging/Meals without documentation of purpose or support for County program.
- 4) Miscellaneous expenses amounting to \$400,000 which according to VOASW were intended to account for a 2017 disallowance of costs which were reversed out. However, no additional supporting documentation was provided.
- 5) Computer and IT related expenses; Although a monthly service agreement exists, there are numerous additional IT charges on a monthly basis. Based upon our review, the monthly service agreement rate appears to cover program and administration; however, all was charged directly to the County program and other IT charges that seem to fall within the monthly service agreement defines are separately invoiced and charged within indirect costs.
- 6) Direct costs in the indirect cost pool. We identified several instances where direct costs were charged within the indirect cost pool.
- 7) DOL FY 2018-Homeless Veteran's Reintegration Program. No supporting documentation was provided, and we were unable to identify how this cost supported County program.
- 8) Guest rooms and tax charges at the San Diego Bayfront hotel. There was insufficient supporting documentation for these costs to determine how these costs supported County program, and additionally we identified that these costs were misclassified on the G/L as Equipment Fund-Computer Hardware.

E. Gift card purchases were included within the indirect cost pool with no supporting documentation of support for County program. As shown in Table 3 below, 864 Visa gift cards at \$25 each plus fees, totaling \$25,027.69 were purchased in November 2018 and November 2019. We requested from VOASW during on-site visit evidence of receipt, evidence of distribution, and explanation of association to County program. To date, no supporting documentation has been provided.

Table 4: Visa Gift Card Purchases

	Order date	Order by/Shipped to	From	# of GC	Total amount including fees
1	11/14/2018	Accounts Payable	Amazon.com	20	579.00
2	11/14/2018	No name provided, delivered to Happy Holiday	Staples	425	12,310.20
3	11/20/2019	Manar Hirmiz	Staples Advantage Gift Card Mall	360	10,428.45
4	11/15/2019	Nagham Hakeem	Amazon.com	40	1,158.00
5	11/12/2019	Nagham Hakeem	Amazon.com	19	552.04
				864	25,027.69

Shipped to: 3530 Camino Del Rio N #300, San Diego CA 92108

- F. During testing of indirect costs, we found inadequate controls over review and payment of company credit cards – as noted in Finding 1. In addition, we identified an employee who used a company credit card to pay for a car rental on 8/12/19. Although the VOASW provided evidence that the employee reimbursed the \$845.72 to VOASW on 10/16/19, this item highlights significant lack of internal controls.
- G. Submitted expenses in some instances lacked proof of payment (cancelled checks, credit card statements). Absent proof of payment we cannot determine the cost is actual.
- H. We identified inadequate internal controls on 75 of the requested items for which we received documentation for. Examples include:
- 1) Inadequate payment authorization
 - 2) Invoice not marked paid and dated
 - 3) Invoice not marked as items/services received
 - 4) Travel, Lodging, Meals, no purpose, approval or linkage to County program indicated
- I. Inadequate allocation – as noted in Finding 1

Finding 3: Disallowed costs of \$4,625.39, plus corresponding fringe benefits and indirect costs.

Calculate and refund the amount of CA lunch penalties (plus corresponding fringe benefits) paid and charged to the County, and submit documentation that supports the calculation.

It was noted on the payroll distribution reports that VOASW incurred and paid labor law penalties of \$24,611.10 in FY 18/19 and \$12,383.00 in FY 19/20 for several of their employees. These costs were incurred because VOASW apparently failed to provide a proper meal break to some employees and paid a premium (penalty) of extra pay to those employees.

Finding 4: Inadequate bank reconciliation procedures and internal controls.

Inadequate bank reconciliation procedures and internal controls were noted in the report, but required response/actions are no longer applicable because VOASW no longer has a contract with the County.

Finding 5: Inaccurate reporting of the Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ending June 30, 2018.

Revised independent and single audit reports received and accepted.

Updated written policies and procedures are no longer required since VOASW no longer has a contract with the County.

In addition to the on-site visits, on June 9, 2020 the County contacted VOASW and VOASW Counsel to request the submission of the required Certification of Expenditures and Funding (CEF) for Fiscal Year 2019-2020. VOASW Counsel submitted the CEF to the County on July 22, 2020, however several financial discrepancies were noted on the submitted Excel workbook. A revised CEF was submitted on July 30, 2020, however, once again discrepancies were noted in the Excel workbook, notably in the categories of "Bank Charges and Fees" and "Indirect Costs", which did not reconcile within the final invoice schedules. The County communicated these discrepancies to VOASW on August 3, 2020 and again on August 25, 2020, requesting resubmission with corrections. To date, VOASW has not provided a response to this request. Lack of proper reconciliation of financial records within the CEF provide further support to the ongoing audit concerns and the lack of reasonable assurance of financial record accuracy.

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Summary:

Because of the above noted issues, concerns, and deficiencies, the County maintains our position that we are unable, with any reasonable assurance, to validate or gain assurance of program expense as submitted by VOASW. As such, we are disallowing all costs associated with our contract as detailed below. Thank you for your attention given to this matter. Please refund \$6,549,153.65, plus the disallowance associated with Finding 3, no later than October 30, 2020.

Table 5: Summary of Disallowed Costs

	FY 18-19	FY 19-20	Total
Finding 1	\$3,752,345.48	\$1,452,233.36	\$5,204,578.84
Finding 2	\$1,133,120.00	\$540,693.94	\$1,673,813.94
*Finding 3	TBD	TBD	TBD
Invoices on hold		(\$329,239.13)	(\$329,239.13)
Totals	\$4,885,465.48	\$1,663,688.17	\$6,549,153.65

* plus amount from Finding 3

If you have any questions, please contact Amalia Arevalo, Contract Audits Manager at (858) 636-3530.

Sincerely,



PATTY KAY DANON, Director
Agency Contract Support

PKD:aa

cc: A. Alexander Lowder, Counsel, VOASW
Marie McKenzie, Chief Operations Officer, VOASW
Philip Curtis, VOASW Board of Directors
Neal Clements, VOASW Board of Directors
Abel Svitavsky, VOASW Board of Directors
Denise Knight, VOASW Board of Directors
Jerry G. Langley, Chairperson, VOA Board of Directors
Karen Dale, R.N., MSN, Vice Chair, VOA Board of Directors
John M. Pellegrino, Director, Purchasing and Contracting
Dean Arabatzis, Acting Director, HHS
Andy Pease, Acting Chief of Operations, HHS
Lisa Macchione, County Counsel, County of San Diego
Kyle Sands, County Counsel, County of San Diego
Luke Bergmann, Ph.D., Director, BHS
Nadia Privara Brahms, Acting Assistant Director, BHS
Cecily Thornton-Stearns, Assistant Director, BHS

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