

County of Solano
Office of the Auditor-Controller



**Review of J. Cole Recovery Homes, Inc.
Compliance with Solano County
Department of Health and Social Services' Contracts**

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**Auditor-Controller: Simona Padilla-Scholtens, CPA
Assistant Auditor-Controller: Phyllis Taynton, CPA
Deputy Auditor-Controller: Kirk Starkey
Auditor: Micaela Armstrong**

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INTRODUCTION

Pursuant to the fiscal year 2016/17 audit plan, we reviewed the Solano County Department of Health and Social Services' (HSS) program service contracts (Contract) with J. Cole Recovery Homes, Inc. (J. Cole). We conducted our review in accordance with the auditing standards generally accepted in the United States of America as developed by the American Institute of Certified Public Accountants and the *International Standards for the Professional Practice of Internal Auditing as developed by the Institute of Internal Auditors*.

OBJECTIVE

The objective of our review was to determine the propriety of service costs incurred by J. Cole and reimbursed by HSS and its compliance with fiscal contractual terms and conditions.

BACKGROUND

J. Cole is a treatment provider offering a 12-step social model residential program for men suffering from the disease of drug addiction and alcoholism. They deliver care based on the client's individual needs and remain focused with the client on their road to recovery in an environment designed to provide structure, education, and guidance during the primary treatment phase. Their mission is to provide quality treatment, which enables the alcoholic/addict to find a new way of life without alcohol or drugs and to return to society clean, sober, and productive.

On June 26, 2014, J. Cole entered into a contract with HSS to provide residential treatment services to clients for substance-related disorders to reduce the rate of substance use and to facilitate the development of personal and interpersonal functioning. Under the contract, HSS refers clients to J. Cole through Service Authorization Letters, which determine the aggregate dollar value that can be spent per client. The total aggregate dollar value for all combined Service Authorization Letters determines the total award amount for that fiscal year.

Table A: J. Cole's Contracts with Health and Social Services

Contract No.	Term	Award Amount
03301-15	7/1/2014 to 6/30/2015	Equal to the aggregate dollar value of the Service Authorization Letters.
03301-16	7/1/2015 to 6/30/2016	Equal to the aggregate dollar value of the Service Authorization Letters.

Health and Social Services pays J. Cole monthly on a fee-for-service basis in accordance with contracted terms. J. Cole is required to submit monthly expenses via *Avatar*, HSS's electronic record keeping system. In addition, J. Cole is required to submit monthly invoices and vendor claims specifying services rendered and the related fees for reimbursement with required and appropriate supporting documentation.

SCOPE and METHODOLOGY

The scope of our review included determining the propriety of Contractor reimbursed service costs from July 2014 to June 2016. To achieve our objective, we reviewed internal controls over the accounting and recording of contracted services and claims for reimbursement, and performed the following:

- Compliance tests with the fiscal terms of the contract.
- Inquiries of J. Cole and HSS, including staff and management.
- Examination of J. Cole records.

Our review did not include an assessment of the program's effectiveness in providing the contracted services. Our consideration of the Contractor's internal control structure was limited to gaining an understanding of the internal controls as they related to the services defined in the contract. We relied primarily on detailed testing procedures to substantiate the propriety of expenses for compliance with the fiscal contract terms.

CONCLUSION

Based upon our review, J. Cole accurately claimed reimbursement for services rendered appear proper and materially complied with contractual terms and conditions. However, we noted annual audited financial statements have not been obtained by HSS as required.

The following page provides a detailed description of our finding related to the required annual audited financial statements and the related recommendation.

The Internal Audit Division thanks the Department of Health and Social Services and J. Cole for their time, assistance, and cooperation during our review.

Review of J. Cole's Compliance with Solano County Department of Health and Social Services' Contract
OPPORTUNITIES FOR IMPROVEMENTS & RECOMMENDATIONS

Audited Financial Statements

Discussions with J. Cole management revealed they do not have any audited financial statement reports issued by an outside Certified Public Accountant (CPA).

Exhibit B, Section IV, Item A of the FY 2015/2016 contract requires the Contractor to furnish an annual audited financial statement to the County, which must be submitted within 30 days of its publication. The noncompliance appears due to the contractor being unaware of the new contract term included in FY 2015/2016.

Without annual audited financial statements, J. Cole is not in compliance with the current contract terms and the County is unable to determine J. Cole's financial position.

Recommendation:

J. Cole should obtain audited financial statements from a CPA for the fiscal year 2017/2018. If J. Cole is unable to obtain audited financial statements, they should communicate to the Department of Health and Social Services.

Contractor Response:

The cost of obtaining audited financial statements would be cost prohibitive to our continuing operations. However, we will coordinate with the Department of Health and Social Services as to whether an alternative, such as supplying non-audited financial statements would be acceptable.