



State of California

OFFICE OF THE INSPECTOR GENERAL

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The Department of Corrections and Rehabilitation has improperly paid millions of dollars to substance abuse treatment providers because of its poor management of contractors

The California Department of Corrections and Rehabilitation overpaid three substance abuse treatment contractors nearly \$5 million over a four-year period and allowed one of the contractors to overstate its expenses by more than \$250,000, the Office of the Inspector General reported in a special review released today.

The department has also violated state law by allowing contractors to retain ownership of potentially millions of dollars of property purchased with state funds and failed to hold a contractor accountable for mishandling confidential inmate information, the Inspector General said.

“These findings raise serious concerns about the department’s administration of substance abuse treatment program contracts,” said Inspector General Matthew L. Cate.

“Fortunately, if the department acts promptly, it can recover the entire \$5 million in overpayments and the \$250,000 in overstated expenses” Cate said. The department may have only until December 31st to recover the funds, said Cate.

The Office of the Inspector General found that the department did not detect the \$5 million in overpayments because it failed to enforce contract terms that limit payments to the lower of established rates or the contractors’ actual costs.

The review revealed that the actual costs incurred by each of the three contractors—Mental Health Systems, Walden House, and WestCare—in fulfilling their responsibilities as substance abuse service coordinators during fiscal years 2000-01 through 2003-04 were less than the revenue the department paid them for those periods. According to the terms of the contracts, the contractors should have refunded the difference to the department.

In addition, the review found that one of the contractors—Mental Health Systems—overstated its expenses for providing services by more than \$250,000 from fiscal year 2000-01 through 2003-04 by not following normal accounting rules and expensing the entire value of 22 automobiles purchased with state funds during that period. The department’s contract required the contractor to follow generally accepted accounting principles, which require the contractor to depreciate the costs of the automobiles over the useful life of the vehicle—typically five years.

In response to questions raised by Senator Jackie Speier, the Inspector General also reported that the department has improperly allowed contractors to retain ownership of potentially millions of dollars of equipment purchased with state funds. The problem results from a budget guide developed by the department that allows some contractors to retain ownership of equipment purchased with state monies if the equipment has a unit cost of \$5,000 or less.

“This provision is not only inconsistent with state policy,” said Cate, “it also violates state law, which prohibits gifts of public funds.”

The department did not capture the information needed to determine the value of equipment that the department has improperly given to contractors. But considering that in fiscal year 2005-06 alone, the department processed more than \$2.6 billion in contracts, the Inspector General pointed out that the amount of equipment relinquished to contractors through this inappropriate provision could be in the millions of dollars.

The special review revealed in addition that the department failed to hold a substance abuse contractor—Phoenix Houses of California—accountable for mishandling confidential inmate information. The contractor provided substance abuse treatment services to inmates at the Substance Abuse Treatment Facility and State Prison at Corcoran until its contract lapsed in June 2006. The Inspector General reported that even though the investigative services unit at the prison determined that some of the contractor’s records containing confidential inmate information had been found in the dumpster of a

nearby private business, it closed its investigation because all of the parties interviewed denied dumping the records.

“The investigative services unit’s investigation was inadequate in that it failed to develop the information needed to allow the department to make appropriate factual and legal conclusions about who was responsible for the improper dumping of the confidential information,” Cate said. “As a result, the department did not hold the responsible party accountable for its actions.”

The full text of the Inspector General’s special review can be viewed and downloaded from the Office of the Inspector General’s web site at <http://www.oig.ca.gov/>. To view the report, click on the report title, “Special Review into Concerns Related to Substance Abuse Treatment Contractors” (October 2006) on the home page or on the link to Bureau of Audits and Investigations, Special Reviews, under “Substance Abuse Treatment Contractors, Special Review” (October 2006).

The Office of the Inspector General is an independent state agency responsible for oversight of the California Department of Corrections and Rehabilitation. The office carries out its mission by conducting audits, special reviews, and investigations of the department to uncover criminal conduct, administrative wrongdoing, poor management practices, waste, fraud, and other abuses by staff, supervisors, and management. The special review was conducted under the authority provided to the Inspector General in California Penal Code section 6126.