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SAPC INFORMATION NOTICE 26-05
Supersedes SAPC Information Notice 25-07, Effective 04-30-26

April 30, 2026

TO: Los Angeles County Substance Use Continuum
Contracted Service Provider Agencies

FROM: Gary Tsai, M.D., Bureau Director *GT*
Substance Abuse Prevention and Control Bureau

**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), administers the County’s continuum of substance use prevention, harm reduction, treatment and other related services through a network of contracted provider agencies. In this role, SAPC is committed to responsible stewardship of public funds and establishing service standards that support high-quality care. Provider agencies are also required to maintain administrative and financial systems that support strong and sustainable organizational operations.

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

Fiscal Compliance Reviews are designed to protect County investments by ensuring that provider agencies receiving public funds have systems in place to accurately track and report revenue and expenditures, maintain compliance with applicable policies and regulations, and sustain fiscal viability to support consistent service delivery. Regulations that mandate and guide 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 Auditor-Controller Contract Accounting and Administration Handbook](#)

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

Fiscal Compliance Documentations

SAPC and A-C will request documentation from provider agencies in advance of a scheduled Fiscal Compliance Review. These materials are used to evaluate the provider agency’s fiscal health and the adequacy of internal controls. All requested documentation aligns with Generally Accepted Accounting Principles (GAAP) and reflects standard fiscal review practices.

SAPC is responsible for ensuring that all County contracts and agreements are reviewed for each fiscal year in which they were active.

To streamline the review process, SAPC has worked with A-C to reduce duplicative documentation requests. Attachment A provides a comprehensive list of required documents, along with guidance to support timely and complete submission. Provider agencies are encouraged to work with their fiscal staff to establish and maintain these records on an ongoing basis.

Annual Audited Financial Statement Requirement

In accordance with the Los Angeles County Board of Supervisors Policy 4.051, the County must conduct an annual analysis of all contracted provider agencies. As part of this analysis, SAPC must collect Audited Financial Statements from all provider agencies that have an active SAPC contract. All contracted provider agencies, regardless of corporate status (e.g., for-profit or non-profit) or service type, must complete an annual independent audit of their financial records to ensure compliance with applicable standards and to verify financial accuracy.

Provider agencies that expend \$1,000,000 or more in federal funds during their fiscal year must also complete an Audited Financial Statement which includes the Single Audit Report requirement(s) and submit it to SAPC. A Single Audit is required for provider agencies that expend \$1,000,000 or more in federal funds during their fiscal year, an increase from the previous \$750,000 threshold. These audits ensure that provider agencies’ financial records are accurate, reliable, compliant with GAAP, and in compliance with laws and regulations related to federal awards.

Type of Audit	Provider Requirement	Due Date
Audited Financial Statements	All contracted service provider agencies, regardless of corporate status or services being provided, must complete an independent financial audit on an annual basis.	30 calendar days after provider agency receives the report or nine (9) months from close of fiscal year (whichever is earlier).
Single Audit Report	Provider agencies who expend over \$1,000,000 or more in federal funds, during entity’s fiscal year, as a federal requirement in provider agency’s Audited Financials.	30 calendar days after provider receives the report or nine (9) months from close of fiscal year (whichever is earlier).

To ensure the validity of the report, the financial audits must include, but are not limited to, the following:

- Be conducted by an independent, external certified public accountant (CPA) with no organizational conflict of interest
- Include an Opinion Letter providing the CPA's assessment of financial statements and, where applicable, compliance with Federal requirements and regulations for Single Audits.
- Cover the full prior fiscal year
- Include, at minimum:
 - Balance Sheet
 - Income (Profit/Loss) Statements
 - Statement of Cash Flows
 - Statement of Changes in Owners' Equity

To maintain compliance and demonstrate financial stability, all provider agencies must submit annual Audited Financial Statements and/or Single Audit Report to SAPC by April 30th (for agencies operating on a July-June fiscal year) of each year for the prior year or within nine (9) months following the end of their fiscal year.

Failure to submit required documentation may result in findings of non-compliance citation(s) and contract action(s), including, but not limited to, withholding of payment(s).

Preparing For Your Fiscal Compliance Reviews

As with all compliance reviews, fiscal compliance reviews are intended to support provider agencies in strengthening their financial systems and internal 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 review.

The table below is a guide to begin the internal review. The listed items reflect the most common deficiencies identified in prior A-C Fiscal Compliance Review Reports.

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.1.0 titled, "Purpose of Program Funds" OMB Uniform Guidance Sections 200.404 and 200.405	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	SAPC Contract, 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

Fiscal Compliance Reviews may result in findings that require corrective action, including a Corrective Action Plan (CAP), and in some cases, recoupment of funds.

The Finance Services Division leads the development, implementation, and resolution of CAPs and assigns a Fiscal Compliance Analyst to work directly with provider agencies to ensure findings are fully addressed. Because A-C Fiscal Compliance Review Reports are shared with County Board Offices, certain findings may receive additional attention by County Leadership based on the severity of the finding(s). Provider agencies are required to respond promptly to all requests and implement corrective actions within established timelines.

In some cases, findings may require recoupment of funds. While this notice is intended to provide guidance to help prevent such outcomes, recoupment may be necessary when deficiencies result in disallowed or improperly allocated expenditures.

Recoupment will be addressed as follows:

- **Prevention Program (Cost Reimbursement):**
Disallowed costs will be recouped from the provider agency's next monthly payment(s) following issuance of the final Fiscal Compliance Review Report by A-C. Provider agencies must immediately request a Payment Plan by contacting SAPC Finance Services Division at SAPC-Finance@ph.lacounty.gov. All payment plans must be resolved by June 30th of the current fiscal year.
- **Drug Medi-Cal and SUD Programs (Billing Rates):**
Provider agencies must submit documentation demonstrating that disallowed costs were not charged to SAPC programs. Documentation must be submitted to SAPC Finance Services Division at SAPC-Finance@ph.lacounty.gov. If sufficient documentation is not provided, funds will be recouped from the provider agency's next payment(s). Provider agencies must immediately request a Payment Plan from SAPC Finance Services Division at SAPC-Finance@ph.lacounty.gov. All disallowances on a Payment Plan shall be fully recouped by the end of current fiscal year, June 30th.
- **Inappropriate Allocation of Expenditures:**
Provider agencies must submit adequate documentation to SAPC Finance Services Division at SAPC-Finance@ph.lacounty.gov supporting the reallocation. If documentation is insufficient, the disallowed amount will be recouped. Provider agencies must immediately request a Payment Plan from SAPC Finance Services Division at SAPC-Finance@ph.lacounty.gov. All disallowances on a Payment Plan shall be fully recouped by the end of current fiscal year, June 30th.

Contractual and Fiscal Actions for Non-Compliance

Provider agencies must submit all requested documents and complete required actions within established timelines. Timely submissions allow SAPC to work collaboratively with provider agencies on revisions or corrections. It is critical that SAPC and provider agencies work closely to resolve instances of non-compliance issues to ensure appropriate use of County funds. Once corrective actions have been developed and implemented, provider agencies must ensure sustained adoption by all relevant staff. This will help avoid these issues are cited again in future audits.

Failure to resolve issues by identified deadline will result in contractual actions, including, but not limited to:

- Mandated training(s) and technical assistances
- Withholding Payments
- Denial of contract augmentations, site additions, and/or service expansions
- Exclusion from additional programming and funding opportunities

Technical Assistance and Support

SAPC is committed to supporting provider agencies in developing and maintaining strong fiscal and administrative systems. Provider agencies may contact the SAPC Finance Services Division before, during, and after a Fiscal Compliance Review for guidance on requirements, documentation, and resolution of findings.

The Finance Services Division may also assign a Fiscal Compliance Analyst to attend entrance and/or exit conferences for all A-C reviews to support coordination and timely resolution of any required corrective action.

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April 30, 2026

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

GT:dd

Attachment