COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

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TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **ALLEGATIONS AGAINST REFUGIO PARA NIÑOS FOSTER FAMILY AGENCY**

As requested by Supervisor Gloria Molina's Office, we have reviewed a series of allegations of financial misconduct by the management of Refugio Para Niños Foster Family Agency (Refugio or Agency). The allegations were received by the Supervisor's Office from an anonymous source and through the County's Fraud Hotline.

To assess the validity of the allegations, Audit Division staff conducted interviews with Refugio staff and management, and reviewed various financial and other related records. Where necessary, we also referred to the Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations, the Foster Family Agency (FFA) Contract, Exhibit C, and the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) to determine whether Refugio has appropriately spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. The results of our review are summarized below.

<u>Results of Review</u>

Background

Under the FFA Program, the Department of Children and Family Services (DCFS) contracts with Refugio to recruit, certify, train and support foster family homes and to provide treatment and supportive services for children placed in these homes. Under the provisions of the contract, the County pays Refugio a monthly rate for each child based on rate classifications determined by the California Department of Social Services. During calendar year 2003, Refugio received $7,460,335 in foster care funds from DCFS and paid $3,229,321 of this amount directly to foster parents.

We noted that FFA revenues from Los Angeles, Orange and San Bernardino Counties constitute approximately 95% of Refugio's total revenues and Los Angeles County funds comprised in excess of 85% of the Agency's total FFA revenues. Therefore, the majority of FFA funds paid to Refugio are from Los Angeles County.

Summary

Our review of the allegations made against Refugio indicates that the Agency has misspent FFA funds. Most significantly, Refugio used $206,549 in FFA funds to start a Multicultural Counseling Center (MCC), which is an unallowable use of these funds. The Executive Director (ED) was also receiving a salary of $2,250 per month to administer the MCC. This was in addition to $297,000 in salary and benefit payments the ED received to administer the FFA program during calendar year 2003, which we believe is an excessive level of compensation.

The Agency has also incurred expenses for fundraising activities, which is an unallowable use of FFA funds. The Agency's fundraising expenses have also exceeded fundraising revenues so far.

The nature of the findings in this current review of allegations against Refugio are similar to those included in our September 5, 2000 report on this agency in that there continues to be a pattern of non-compliance with established expenditure policies and County contract terms. At the time of our review, Refugio management was continuing to incur significant unallowable expenditures, particularly excessive salary and retirement benefits to its Executive Director, despite very clear statements in our September 2000 audit report and during the ensuing appeals process, that the level of these expenditures are excessive. It should be noted that only when faced with the prospect of contract termination and debarment, did Refugio offer to reduce the Executive Director's compensation package.

The Agency has also not resolved the other unallowable expenditures noted in the September 2000 audit, although in November 2004 they submitted a proposed settlement of the findings in both audits.

Based upon the Agency's consistent pattern of non-compliance with applicable expenditure policies and County contract terms, we recommend that DCFS no longer continue contracting with Refugio Para Niños and institute debarment proceedings.

If the Department decides to continue contracting with Refugio for programmatic reasons, we recommend that they require the Agency's Board, as conditions to continuing the contract to immediately correct any deficiencies identified in this report

and our September 2000 report that remain outstanding. DCFS should also require the Agency to reimburse the County for the unallowable expenditures noted in this and our September 5, 2000 report, or an amount acceptable to DCFS. In addition, DCFS should put the Agency on probation for a set time with strict compliance requirements and careful monitoring of all contract terms and conditions. During the probation period, failure to comply with all federal and State policies related to allowable expenditures and/or County contract terms and conditions should result in the Department ceasing to contract with Refugio.

Allegation 1

The Executive Director used foster care funds totaling $150,000 to establish a Multicultural Counseling Center.

Findings

Refugio used foster care funds to start a separate entity called the Multicultural Counseling Center of Los Angeles (MCC). The MCC was established to provide mental health services. On January 6, 2004, Refugio transferred $150,000 from the Agency's FFA funds to the MCC. Refugio later transferred an additional $3,890 to the MCC. Refugio also directly paid $41,477 in leasehold improvements, and $11,182 in furniture, equipment, office supplies and other office expenses, taxes, license fees and legal fees for the MCC. According to Refugio's management, these payments were a loan to the MCC to cover the Center's expenses until funding becomes available.

Refugio recorded a note receivable in the financial records of the FFA for the $150,000 payment to the MCC. The MCC recorded a $206,549 note payable to the FFA for the total of all funds received from the FFA. However, at the time of our review, there was currently no note or formal loan agreement between Refugio and the MCC. Refugio also did not obtain DCFS' approval to loan FFA funds to its MCC, even though the Circular indicates that expenditures incurred in connection with the establishment or reorganization of an organization are unallowable without prior approval of the awarding agency. We also noted that Refugio's ED is also an officer of the MCC.

Refugio management indicated that the MCC was providing mental health services to some the Agency's foster children and, as a result, they believed it was appropriate to use FFA funds to set up the MCC. However, the California Department of Social Services (CDSS) Manual states that FFA funds are to be used for social work, recruiting and training of certified family home foster parents, and associated administrative costs. CDSS staff confirmed that FFA funds are not to be used for mental health services. Mental health services should be obtained through the Medi-Cal program. Also, if foster children require mental health services, the FFA contract requires the services to be obtained, to the extent feasible, through the County, or a County-contracted facility. The MCC does not have a contract with the County Department of Mental Health (DMH), nor does it have a subcontract with a DMH contractor.

We understand that Refugio is negotiating to obtain a subcontract with a DMH contractor. However, obtaining a subcontract to provide mental health services does not authorize the use of FFA funds to establish the MCC.

Conclusion

This allegation has been substantiated. Refugio used $206,549 in FFA funds, the majority of which are Los Angeles County funds for unallowable expenditures.

Allegation 2

Refugio planned a golf tournament and hired an events firm to promote the tournament.

Findings

According to a "Proposal for Refugio Para Niños – 2004 Celebrity Classic", a golf tournament was to be held at the La Quinta Resort & Club in Palm Springs on December 10th through the 12th, 2004. On May 27, 2004, Refugio made an initial payment of $2,000 to La Quinta Resort & Club. Refugio also had a $30,000 agreement for Celebrity Events to produce the Golf Tournament, as well as a Dinner and Show. On January 5, 2004, Refugio paid Celebrity Events $15,000 as a non-refundable deposit. Of the remaining balance of $15,000, $7,500 was due within 30 days before the event and the final $7,500 was due on the day of the event.

Refugio's Board minutes, dated November 24, 2003, indicates that the "main interest (and intent of this function) is in getting Refugio's name known" and to raise funds for the Agency.

The Circular states that the costs of meetings or other events related to fundraising, or other organizational activities are unallowable. In addition, the costs of advertising and public relations designed solely to promote the organization are unallowable.

Conclusion

This allegation has been substantiated. Refugio used $17,000 in FFA funds for unallowable expenditures.

Allegation 3

The Agency has had a fundraising department for nearly four years that has been paid for with foster care funds.

Findings

The minutes from Refugio's February 7, 2000 Board meeting indicate that the Board unanimously approved the establishment of a fundraising committee. Between January 1, 2000 and June 30, 2004, Refugio spent $781,300 for fundraising expenses, including the $15,000 paid to Celebrity Events and $2,000 to La Quinta Resort & Club for the golf tournament discussed earlier.

Attachment B to the Circular states that the costs of meetings or other events related to fundraising or other organizational activities are unallowable.

In addition to violating the Circular prohibition on fundraising expenditures, we noted that Refugio's fundraising efforts have not been cost effective. As noted, the committee has spent $781,300 on fundraising. However, Refugio has only generated revenues of $282,984, $159,454 (56%) in cash contributions and $123,530 in in-kind contributions (e.g., toys, etc.). As a result, over the last four and a half years, Refugio has spent $498,316 ($781,300-$282,984) more on fundraising than it has raised, and $621,846 ($781,300-$123,530) more than the total amount of cash contributions received.

As discussed earlier, approximately 95% of Refugio's revenues are foster care funds and approximately 85% of those revenues are from Los Angeles County. Accordingly, the majority of the unallowable fundraising expenses were paid for with Los Angeles County FFA funds.

Conclusion

This allegation has been substantiated. Refugio used a net of $621,846 in FFA funds, the majority of which are Los Angeles County funds for unallowable fundraising expenditures.

Allegation 4

Refugio's Christmas holiday luncheon was excessively costly.

Findings

Refugio spent a total of $46,863 for its December 21, 2003 Christmas luncheon. Specifically, the Agency paid for a banquet at the Pacific Palms Conference Resort in the City of Industry, including flowers, costumes, plaques, centerpieces, music DJ, a dance company, pictures, fax machines for new foster parents, gift certificates, candy canes, and other supplies for the Christmas party.

Our review of the underlying documentation supporting the expenses related to this Christmas luncheon indicates that the luncheon was primarily attended by foster children and foster parents. In general, the costs appeared to be FFA related, benefiting Refugio's foster children.

It does appear that the cost of the luncheon has increased over time. For example, the payment to the Industry Hills Sheraton for the 1998 luncheon for meals, ballroom space, etc. was $15,602.83. This same cost for the 2003 luncheon, paid to the Pacific Palms Conference Resort, was $23,602.23 which represents a 51% increase. However, based on the number of meals ordered for the luncheon, the cost per attendee rose only moderately ($22.29 per attendee versus $24.84 per attendee).

Conclusion

This allegation was not substantiated.

Other Issues

Our September 5, 2000 report on Refugio indicated that Refugio's base salary payments to the Executive Director (ED) totaled $284,500 for the 20-½ month period ending December 31, 1999. We questioned those payments because they appeared to be excessive.

Our current review indicates that the ED is still being compensated for administering the FFA at approximately the same level noted during the prior audit. During calendar year 2003, Refugio's ED received in excess of $297,000 in salary and benefits to administer the FFA. During calendar year 2004, the ED also began receiving a salary of $2,250 per month from the MCC in addition to compensation received as ED of Refugio's FFA. For the six-months ended June 30, 2004, the ED was paid a total of $13,500 from the MCC. The MCC is paying the ED's salary with a "loan" of FFA funds. As discussed earlier, the expenditure of FFA funds on the MCC is not allowable.

Conclusion

The ED's compensation for administering the FFA continues to be excessive. To the extent the ED's salary and benefits exceed a reasonable level, these costs are unallowable. In addition, for the reasons described above, the ED's salary related to the management of the MCC should not have been funded with FFA funds, making these expenditures an unallowable use of FFA funding.

We discussed the results of our review with Refugio management. Refugio indicated that they have established a formal note for the MCC to repay the FFA funds. Agency management also indicated that they have cancelled the golf tournament and closed their fundraising unit.

Finally, with respect to the ED's compensation from the MCC, Refugio believes that transactions involving the MCC have no impact on the FFA (since the Agency contends that it will repay FFA funds "loaned" to the MCC), and were therefore inappropriately included in our review.

If you have any questions, please contact me, or your staff may contact Jim Schneiderman at (626) 293-1103.

JTM:MMO:MM

c: David E. Janssen, Chief Administrative Officer
David Sanders, Ph.D., Director, Department of Children and Family Services
<u>Refugio Para Niños Foster Family Agency</u>
Joseph Steinberg, Executive Director
Board of Directors
Cora Dixon, Chief, Foster Care Audit Bureau, California Department of Social Services
Violet Varona-Lukens, Executive Officer
Audit Committee Members
Public Information Office
Commission for Children and Families