COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

September 1, 2006

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **PENNY LANE CENTERS CONTRACT REVIEW – WRAPAROUND APPROACH SERVICES PROGRAM**

We have conducted a fiscal review of Penny Lane Centers (Penny Lane or Agency), a Wraparound Approach Services (Wraparound) Program service provider for the period of January through December 2005.

Background

The Department of Children and Family Services (DCFS) contracts with Penny Lane, a private, non-profit, community-based organization, to provide and operate the Wraparound program. The Wraparound program is a family-centered and needs-driven program providing individualized services to children and their families such as, therapy, housing, educational, and social assistance. The target population for the Wraparound program includes children who are currently or at risk of being placed in a Rate Classification Level of 12 to 14 group home, Metropolitan State hospital, etc. Penny Lane's offices are located in the Third and Fifth Districts.

DCFS pays Penny Lane on a fee-for-service basis. Penny Lane receives $5,994 for non-federally eligible children and $2,997 for federally eligible children. DCFS paid Penny Lane approximately $2,389,000 for fiscal year 2005-2006.

Purpose/Methodology

The purpose of the review was to determine whether Penny Lane complied with its contract terms and appropriately accounted for and spent Wraparound funds in providing services to children and their families. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State, and County guidelines.

Results of Review

Penny Lane over charged the Wraparound program approximately $548,400. Specifically, Penny Lane inappropriately charged the Wraparound program for the following:

- Approximately $376,000 in expenditures related to Penny Lane's mental health program.
- Approximately $63,000 in lease and utility costs for office space used by non-Wraparound program staff.
- Accounting services for $15,000 without adequate supporting documentation.
- Approximately $23,000 to pay for phone equipment and services used by both Wraparound and non-Wraparound staff.
- Approximately $71,400 in indirect costs that were over-allocated to the Wraparound program.

Subsequent to our review, Penny Lane transferred approximately $462,000 back to the Wraparound program and reduced indirect cost charges by approximately $71,400. As a result, Penny Lane's unspent revenue at the end of the Calendar Year 2005 increased from $392,050 to $925,350. Penny Lane needs to reserve the unspent funds to ensure that the funds are used solely for the Wraparound program purpose in subsequent years as required by the County contract.

The details of our review, along with recommendations for corrective action, are attached.

Review of Report

On August 16, 2006, we discussed our report with Penny Lane who generally agreed with the findings. In their attached response, Penny Lane management indicates that they will incorporate all the recommendations into their procedures.

We notified DCFS of the results of our review. We will also follow-up on our recommendations during next years' fiscal monitoring review. We thank Penny Lane for their cooperation and assistance during this review. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: David E. Janssen, Chief Administrative Officer
Joan Smith, Acting Director, Department of Children and Family Services
Ivelise Markovits, CEO, Penny Lane Centers
Public Information Office
Audit Committee

WRAPAROUND APPROACH SERVICES
PENNY LANE CENTERS
FISCAL YEAR 2005-06

UNSPENT REVENUE

Penny Lane Centers (Penny Lane or Agency) receives $5,994 per month for each non-federally eligible child and $2,997 per month for each federally eligible child assigned to them. In instances in which the Agency does not expense the entire monthly amount in providing services to a child, the Agency is permitted to use the excess revenue to fund services to children that require services in excess of the monthly rate. Penny Lane is also permitted to carryover unspent Wraparound funding from one program year to another to provide additional Wraparound program services in subsequent years.

As noted in the following report, Penny Lane over charged the Wraparound program approximately $548,400. Subsequent to our review, Penny Lane transferred approximately $462,000 back to the Wraparound program and reduced indirect cost charges by approximately $71,400. As a result, Penny Lane's unspent revenue at the end of the Calendar Year 2005 increased from $392,050 to $925,350. Penny Lane needs to reserve the unspent funds to ensure that the funds are available to use to provide additional Wraparound program services in subsequent years.

Recommendation

1. **Penny Lane reserve the unspent funds to ensure that the funds are used to provide Wraparound program services in subsequent years as required by the County contract.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenues are properly recorded in Penny Lane's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the bank reconciliations for December 2005.

Results

Penny Lane properly recorded and deposited cash receipts timely. However, their December 2005 bank reconciliation contained 73 outstanding checks over 90 days old totaling $10,430. In addition, 43 (59%) of the 73 outstanding checks were issued in 2003 and 2004. Reconciling items should be resolved timely and unclaimed or undelivered checks should be cancelled periodically per the County contract. Subsequent to our review, Penny Lane voided 47 checks, cashed three checks, replaced one check and is in process of investigating the remaining 22 checks.

Recommendations

Penny Lane management:

2. **Resolve reconciling items in a timely manner.**

3. **Report to DCFS the results of their investigation of the remaining 22 checks that had been outstanding over 90 days.**

EXPENDITURES/PROCUREMENT

Objective

Determine whether program related expenditures are allowable under the County contract, properly documented, and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records, and reviewed documentation for 20 non-payroll expenditure transactions billed by the Agency from January to December 2005, totaling $213,613.

Results

Penny Lane expensed $476,910 in program funds during 2005 that were not allowable expenditures under their County contract. Specifically, we noted the following:

- Penny Lane charged the Wraparound program $376,065 in expenses related to Penny Lane's mental health program. Penny Lane management stated that a former board member who managed the Agency's finances inappropriately transferred the expenses to the Wraparound program.

- Penny Lane did not maintain adequate documentation to support a $15,000 charge to Wraparound program for accounting services provided by a former board member. The invoice Penny Lane provided did not state a billing rate or total number of hours worked and did not agree with the terms and conditions

specified on the contract established between Penny Lane and the former board member. The County contract states that consultant services should be supported with contracts, billing rate, time and attendance records.

- Penny Lane charged $62,845 for lease and utility expenditures to Wraparound program related to office spaces not used by the program.

- Penny Lane charged $23,000 to Wraparound program for phone equipment and related services used by both Wraparound program staff and non-Wraparound program staff. Subsequent to our review, the Agency transferred the expenditures from the Wraparound program to administration overhead.

Subsequent to our review, Penny Lane transferred $461,910 in expenses initially charged to the Wraparound program ($376,065+$62,845+$23,000) to the appropriate programs.

Recommendations

Penny Lane management:

4. **Eliminate the $15,000 charge to the Wraparound program resulting in an increase to the amount of Wraparound revenue available to use in subsequent years.**

5. **Discontinue using the Wraparound program funds to reimburse the Agency for expenditures applicable to other programs.**

INTERNAL CONTROLS

Objective

To determine whether the contractor maintained sufficient internal controls over its business operations.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, and tested transactions in various areas such as cash, expenditures, payroll and personnel.

Results

Penny Lane needs to improve its controls over petty cash. Penny Lane did not adequately document $200 in petty cash disbursements made to staff. The receipts did not indicate the name of staff and purpose of the expense. The County contract requires that petty cash disbursements must be supported by invoices, store receipts or

other external authenticating documents indicating the item purchased and the employee making the purchase.

Recommendations

Penny Lane management:

6. **Establish sufficient control over petty cash.**

7. **Eliminate the $200 charge to the Wraparound program resulting in an increase to the amount of Wraparound revenue available to use in subsequent years.**

FIXED ASSETS

Objective

Determine whether Penny Lane's fixed assets purchased with Wraparound funds are used for the Wraparound program and that the assets are safeguarded.

We did not perform test work in this section as Penny Lane did not purchase fixed assets during the audit period.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll is appropriately charged to the Wraparound program. In addition, determine whether personnel files are maintained as required.

Verification

We reviewed payroll expenditures totaling $13,518. We also reviewed the personnel files of staff assigned to the Wraparound program.

Results

Penny Lane's salaries were properly supported and appropriately charged to the Wraparound program. The Agency also maintained personnel files as required by the County contract.

Recommendation

There are no recommendations for this section.

COST ALLOCATION PLAN

Objective

Determine whether Penny Lane's Cost Allocation Plan was prepared in compliance with the County contract and applied to program costs.

Verification

We reviewed Penny Lane's Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency in October 2005.

Results

Penny Lane's Cost Allocation Plan complied with the County contract requirements. However, Penny Lane over-allocated its information technology and building related expenditures totaling $71,363 to Wraparound program. Subsequent to our review, the Agency reassessed the Agency's inventory and building usage and reduced its indirect cost allocation to the Wraparound program by $71,363.

Recommendation

8. **Penny Lane management ensure that indirect costs are allocated according to the Cost Allocation Plan and OMB Circular A-122.**

Penny Lane's mission is to foster hopes and dreams by empowering children, youth and families to reach their highest potential.

August 28, 2006

Ms. Susan Kim, CIA
Senior Accountant-Auditor
Department of Auditor-Controller
Countywide Contract Monitoring Division
1000 S. Fremont Ave., Unit 51
Building A-9 East
Alhambra, CA. 91803-4737

Dear Susan:

Thank you for sending us the draft for the contract review of our wraparound services program. We concur with your findings in the report. We will certainly review and incorporate all the recommendations as listed into our procedures.

We appreciate the time and effort you have spent on this review to help us improve ourselves in the operation of the program. It has been a pleasure working with you.

Sincerely,

Rose Cheung, C.P.A.
Chief Financial Officer

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www.pennylane.org

Founded in 1969, Penny Lane is a 501 (c) (3) non-profit organization serving abused, abandoned and neglected children with Foster Care, Adoption Services, Residential Treatment, Mental Health, Transitional Housing, and Educational Services.