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DEPARTMENT OF AUDITOR-CONTROLLER

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF WINGS OF REFUGE, INCORPORATED – A FOSTER FAMILY AGENCY CONTRACTOR**

Attached is our audit report on the fiscal operations of Wings of Refuge, Incorporated (WOR or Agency) from January 1, through December 31, 2005. The Department of Children and Family Services (DCFS) contracts with Wings of Refuge to operate a Foster Family Agency (FFA) to recruit, certify, train and support foster family homes. The agency is located in the Fifth Supervisorial District.

During our review period, WOR had 134 children placed by Los Angeles County in approximately 84 certified foster homes. DCFS paid WOR between $1,589 and $1,865 per month for each foster child, for a total of $3,144,996 in calendar year 2005. WOR paid $1,272,049, 40% of the funds directly to foster parents, which is in compliance with State guidelines for the percentage of funds paid to foster families.

Scope

Our review was intended to determine whether WOR complied with its contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures to provide services to children in the Agency's care. We also evaluated WOR's accounting records, internal controls and compliance with federal, State, and County guidelines on the disbursement of FFA foster care funds.

Summary of Findings

We identified $5,896 in unallowable and unsupported/inadequately supported expenditures and $66,722 in potential overpayments from DCFS. We also determined WOR needs to develop a cost allocation plan for its administrative expenses and strengthen its internal controls over its check writing, bank deposits, payroll/personnel records, contracts and bank reconciliations. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the questioned costs and, if appropriate, collect all disallowed amounts. DCFS and WOR should also resolve the potential overpayments, and WOR should reimburse the County for any confirmed overpayments. Finally, DCFS needs to ensure that WOR's management takes appropriate action to address the recommendations in this report and monitor to ensure the actions result in permanent changes.

Review of Report

We discussed our report with WOR's management on October 23, 2006. The Agency will provide their response to the report directly to DCFS. DCFS will incorporate the Agency's response into a Fiscal Corrective Action Plan that will be submitted directly to the Board of Supervisors. We thank WOR management and staff for their cooperation during our review.

If you have any questions, please contact me, or your staff may contact Jim Schneiderman at (626) 293-1101.

JTM:MO:JLS:MM
Attachment

c: David E. Janssen, Chief Administrative Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Renee Moncito, Executive Director, Wings of Refuge, Inc.
Board of Directors - Wings of Refuge, Inc.
Cora Dixon, Chief, Foster Care Audit Bureau, California Department of Social Services
Sheilah Dupuy, Chief, Foster Care Rates Bureau, California Department of Social Services
Public Information Office
Audit Committee
Commission for Children and Families

WINGS OF REFUGE, INC.
FISCAL REVIEW

REVIEW OF EXPENDITURES

We identified $5,896 in questioned costs and $66,722 in potential overpayments. Details of these costs/revenues are discussed below.

Applicable Regulations and Guidelines

WOR is required to operate its FFA in accordance with the following federal, State, and County regulations and guidelines:

- FFA Contract, including Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Expenditures

Line of Credit Interest Expense

WOR incurred $3,940 in interest expense from a line of credit. The Agency indicated that the loan was necessary to meet cash flow needs and expenditure obligations. However, Section 23 of Attachment B to the Circular indicates that interest payments are an unallowable cost.

Fines, Penalties and Other Unallowable Costs

WOR incurred $397 in unallowable costs. Specifically, $264 late fees to Pitney Bowes, Dell Computers and Office Depot; $117 in finance charges and late fees for an Agency credit card; and $16 for alcoholic beverages. Sections 3 and 16 of Attachment B of the Circular state that penalties, fines and alcoholic beverages are unallowable. Section 23 of Attachment B to the Circular states that finance expenses are not allowable.

Unsupported/Inadequately Supported Expenditures

WOR incurred $1,559 in expenditures that were either not supported or were not adequately supported.

- $1,436 in credit card charges, primarily for meals at various restaurants for which no itemized receipts were provided.

- $123 in an inadequately documented payment to the Executive Director. The Agency provided the cancelled check but did not provide an itemized receipt or other supporting documentation to justify the payment.

A-C Handbook, Section A.3.2 states that all expenditures must be supported by original invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed upon audit. The A-C Handbook also states that credit card disbursements must be supported by original invoices, store receipts or other external documents indicating the items purchased and the employee making the purchases.

Recommendations

1. **DCFS management resolve the $5,896 in unallowable and unsupported/inadequately supported expenditures and if appropriate, collect any disallowed amounts.**

WOR management:

2. **Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.**

3. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

POTENTIAL OVERPAYMENTS

WOR's internal records indicate that the Agency may have received $66,722 in overpayments from DCFS. However, DCFS' records indicate they overpaid WOR $49,488. The Agency has indicated that it plans to submit Payment Resolution Notification forms to DCFS acknowledging $66,722 in overpayments. DCFS and WOR should work together to resolve the potential overpayments and ensure that WOR reimburses the County for any confirmed overpayments.

Recommendation

4. **DCFS work with WOR to resolve the potential overpayments, and ensure that WOR reimburses the County for any confirmed overpayments.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several areas where WOR needs to improve its internal controls and contract compliance. DCFS should ensure that WOR's management takes appropriate corrective actions to address the internal control and contract compliance recommendations in this report. DCFS should also monitor to ensure the corrective actions result in permanent changes.

Allocation of Costs

Section C.2.0 of the A-C Handbook states that agencies that operate multiple programs must allocate expenditures that benefit the programs or funding sources on an equitable basis.

In addition to the FFA, WOR operates other programs, including Preservation, Family Support, Alcohol and Drug, and the Right Path Probation Program. WOR also receives various grant funds. WOR does not allocate its general (administrative) expenses among the various programs.

WOR management should develop a plan to allocate general (administrative) expenses among the Agency's programs in an equitable manner for DCFS' approval and use the approved plan to allocate administrative expenses for the audit period.

Recommendation

5. **WOR management develop a plan to allocate general (administrative) expenses among the Agency's programs for DCFS' approval and use the approved plan to allocate administrative expenses for the audit period.**

Check Disbursements

During our review of the Agency's expenditures and cancelled checks, we noted the following:

- The Executive Director was the authorized signer and the payee on 11 of 48 expenditure items (23%) and cancelled checks we reviewed.

- The check signer on two (17%) of 12 monthly credit card payments was the Executive Director, who was also the main user of the Agency's credit card.

Section B.2.1 of the A-C Handbook states that a second signature shall be required on all checks, unless otherwise specified in the contract. Because the check signer was also the payee on some of the checks in our sample, or was the primary user of the Agency's credit card, we recommend that WOR management require a second signature on all checks by someone independent of the expenses incurred (such as a Board member) to verify the appropriateness of the expenses.

Recommendation

6. **WOR management require a second signature by someone independent of the expenses on all checks where the check signer is also a payee, or the check is in payment of a credit card primarily used by a signer on the check.**

Timely Deposits

Section B.1.2 of the A-C Handbook requires that cash receipts (i.e., cash or checks) totaling $500 or more be deposited within one day of receipt. We noted that 57 warrants from DCFS issued between June and December 2005 were deposited an average of 23 days after they were issued. WOR needs to ensure that it deposits County payments timely. WOR should also consider having their County payments directly deposited.

Recommendation

7. **WOR management ensure cash receipts totaling $500 or more are deposited within one day of receipt and consider having its County payments deposited directly into the Agency's bank account.**

Payroll/Personnel Controls

Section B.3.1 of the A-C Handbook requires that employee timecards or time reports be prepared for each pay period and be signed in ink by the employee and the employee's supervisor to certify the accuracy of the reported time. We reviewed the personnel files and payroll records of 12 employees and noted that one timecard did not have a supervisor's signature.

Recommendation

8. **WOR management ensure that timecards are consistently approved in writing by a supervisor to certify the accuracy of the reported time.**

Contractor Agreements

Section A.3.2 of the A-C Handbook requires an agency to have a contract, time and attendance records, billing rates and other supporting documentation for contract services.

We reviewed five independent contractors hired by WOR and noted that two of the independent contractors (40%) did not have a contract with the Agency documenting the services to be provided or the billing rates.

Recommendation

9. **WOR management ensure that they have contracts with all independent contractors describing the services to be provided and the billing rates.**

Bank Reconciliations

Section B.1.4 of the A-C Handbook states that bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy.

We noted that four (33%) of the 12 monthly bank reconciliations were not prepared within 30 days of the bank statement date, with one of the four reconciliations prepared approximately four months after the bank statement date. Timely bank reconciliations are necessary to verify the accuracy of the Agency's accounting records and bank balance, as well as to identify and investigate any checks that have not cleared the bank within a reasonable period of time.

Recommendation

10. **WOR management ensure that bank reconciliations are consistently prepared within 30 days of the bank statement date.**