COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

WENDY L. WATANABE
CHIEF DEPUTY

December 10, 2007

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF COMMUNITY YOUTH SPORTS AND ARTS FOUNDATION GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our audit report on Community Youth Sports and Arts Foundation (CYSAF or Agency) fiscal operations from January 1, 2004 through December 31, 2004. CYSAF is licensed to operate one group home with six children. CYSAF is located in the Second Supervisorial District.

The Department of Children and Family Services (DCFS) contracts with CYSAF to care for foster children placed in the Agency. The County paid CYSAF $4,479 a month for each child based on rate classification levels determined by the California Department of Social Services (CDSS). CYSAF received $324,038 in foster care funds from DCFS during 2004.

Scope

Our review was intended to determine whether CYSAF complied with the contract terms and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated the adequacy of CYSAF's accounting records, internal controls and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of FFA/GH foster care funds.

Summary of Findings

We identified a total of $48,550 in questioned costs and $52,433 in potential overpayments. In addition, CYSAF does not have an appropriate plan to allocate indirect costs among the Agency's programs. We also found that CYSAF needs to improve its controls over the disbursements, general ledger postings, bank reconciliations, fixed asset listing, voiding checks, insurance, independent contractors, and payroll and personnel.

We have recommended that DCFS resolve the questioned costs, and to the extent possible, collect the overpayments and disallowed amounts. In addition, DCFS needs to ensure that CYSAF's management takes 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 CYSAF's management on July 18, 2006. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan, is attached. Upon further review by DCFS, $14,553 of the questioned costs was allowed after the agency provided additional information and supporting documentation. DCFS has established a repayment plan for the remaining $33,997 ($48,550 - $14,553) and $52,433 in overpayments. We thank CYSAF management and staff for their cooperation during our review.

Please call if you have any questions, or your staff may contact Jim Schneiderman at (626) 293-1101.

JTM:MMO:JLS:MM

Attachment

c: William T Fujioka, Chief Executive Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Susan Kerr, Chief Deputy Director, Department of Children and Family Services
Glenn Scott, Executive Director, Community Youth Sports and Arts Foundation
Board of Directors, Community Youth Sports and Arts Foundation
Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept. of Social Services
Sheliah Dupuy, Bureau Chief, Foster Care Rates Bureau, CA Dept. of Social Services
Public Information Office
Audit Committee Members
Commission for Children and Families

Community Youth Sports and Arts Foundation Group Home
Fiscal Review

REVIEW OF EXPENDITURES

We identified $48,550 in questioned costs and $52,433 in potential DCFS overpayments. Details of these costs/overpayments are discussed below.

APPLICABLE REGULATIONS AND GUIDELINES

CYSAF is required to operate its group homes in accordance with the following federal, State and County regulations and guidelines:

- Group Home Foster Care Contract (Contract), including Exhibit C-1, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular).
- California Department of Social Services Manual of Policies and Procedures (CDSS MPP).
- California Code of Regulations, Title 22 (Title 22).

Unallowable Expenditures

We identified $10,906 in unallowable group home expenditures under federal and State guidelines or the County's contract.

Payroll Taxes

The A-C Handbook states that the contractor will comply with all applicable federal and State requirements for withholding payroll taxes, reporting, filing and all applicable tax deposits. CYSAF contracts with an outside vendor for its payroll functions and pays State and federal payroll taxes on a bi-monthly basis. We are questioning a total of $1,996 in unallowable payroll tax related expenditures:

- $591 in overpayments, composed of a federal payroll tax overpayment of $171 and a State payroll tax overpayment of $420.
- $1,008 in current period foster care funds used to pay a delinquent State payroll tax levy imposed by the Employment Development Department (EDD). The payments were related to taxes which were due in a period before our review period. The taxes should have been paid with foster care funds received during the period in which they became due.

- $397 in unallowable interest, processing and late charges as a result of the Agency maintaining a delinquent account.

Credit Card Finance Charges

CYSAF incurred $942 in credit card finance charges, cash advance finance charges and late payment fees, which are not allowable according to Federal guidelines. The charges are related to the three credit card accounts the Agency has with Platinum Plus (two accounts) and Capital One.

The combined balance of the three credit card accounts as of December 31, 2004, was $9,716, which appears to be excessive, and may result in substantial future interest charges to CYSAF. CYSAF management should develop a plan to reduce its debt and minimize future finance charges that will also be an unallowable use of foster care funds.

Payment Per Child

The group home contract states that the Contractor shall notify the County within 30 days of the receipt of any payment that is incorrect. Notification must be made by completing the Payment Resolution Notification Form (COV 71). We sampled 23 payments made for 12 children during the review period to ensure revenue received was accurately calculated. We noted overpayments totaling $4,112 which had not been reported to DCFS.

Other Unallowable Expenditures

CYSAF used $3,856 of group home funds on other unallowable expenditures. Specifically, the Agency paid $3,412 for costs related to other programs administered by the Agency; $155 for insufficient funds penalties from accounts with One United Bank; a $68 garnishment overpayment; $22 in late and finance fees; and $199 in long distance personal phone calls and late payment fees.

Unsupported/Inadequately Supported Costs

The A-C Handbook states that original vouchers, invoices, receipts or other documentation shall support all revenues and expenditures, and that unsupported expenditures will be disallowed on audit. We identified $37,644 in group home expenditures that are either not supported or were inadequately supported:

- $9,056 for items such as gas, supplies, haircuts, allowances and other miscellaneous items paid to the Executive Director and Facility Manager. The Agency maintains separate food and clothing expense logs and records all other advances and reimbursements for miscellaneous expenses in a "Petty Cash Summary." The Agency writes checks from the general checking account to the Executive Director and Facility Manager for advances and reimbursements for

expenses. CYSAF was unable to fully account for the reimbursement of advance payments made using group home funds. While the Agency was able to provide cancelled checks and some receipts and invoices indicating they related to the amount reimbursed and advanced, we were unable to reconcile the disbursements to the documentation.

- $15,177 paid to three independent contractors. CYSAF could not provide invoices or other supporting documentation identifying work performed, hours worked, or the rate charged for one of the contractors. For an additional contractor, the support provided was inadequate. The only documentation was a timesheet that was not signed or dated by the contractor or Agency management. Additionally, the amount paid to one contractor was different than the supporting documentation. The Agency was unable to provide an explanation for the additional payments. As a result, we were unable to verify the funds were used for group home purposes.

- $4,791 in credit card payments for items such as office supplies, computer equipment, meals, cell phone charges, furniture, bedding, and gas purchases. The credit card purchases reviewed were not supported by receipts or invoices. The A-C Handbook states that all credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents, indicating the item purchased and the employee making the purchase. Credit card statements are not sufficient support for credit card purchases.

- $3,032 in unsupported expenditures for items such as cell phone bills, telephone bills and utilities payments. The Agency was unable to provide any supporting documentation, such as itemized receipts or original invoices, to indicate the purpose of the expenditure.

- $5,588 in inadequately supported expenditures such as accounting services, an equipment lease, consulting services, food, drug testing and a loan. Agency management provided inadequate supporting documentation to substantiate the expenditures.

Recommendations

DCFS management:

1. **Resolve the $48,550 in questioned expenditures and, if appropriate, collect any disallowed amounts.**

CYSAF management:

2. **Develop a plan to reduce its credit card debt and minimize future payments for finance charges.**

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

4. **Ensure that group home funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the group home.**

5. **Ensure all supporting documentation such as logs, invoices, receipts, cancelled checks and other external documents for employee reimbursements and advances are cross referenced and annotated to indicate information such as the name of the employee the funds are advanced to, the amount provided, the item(s) purchased and the amount expended.**

6. **Consistently report overpayments to DCFS in a timely manner.**

ALLOCATION OF COSTS

The A-C Handbook indicates that contractors shall maintain a general ledger for all assets, liabilities, fund balances, revenues and expenditures. In addition, the A-C Handbook states that, if contractors provide services in addition to the services required under contract, the contractor shall allocate expenditures that benefit programs or funding sources on an equitable basis.

The Agency administered two additional Los Angeles County programs for the first six months of our review period. The Agency also maintains a portion of their property as rental space to Los Angeles Unified School District and an independent consultant, resulting in facility rental revenues. During our review period, CYSAF received $408,195 in total revenues of which $324,038 (79%) was from DCFS. Although Agency management indicated indirect costs are allocated based on a percentage of revenue earned basis, our review disclosed the Agency does not have an appropriate cost allocation methodology in place to charge indirect expenses to the group home program.

Our review included a total of 245 expenditure transactions and bank transfers. As discussed later in our report, the Agency did not accurately post all expenditure and revenue transactions to their general ledger. As a result, we could not determine how much in indirect costs should have been charged to the group home program compared to what was actually charged. However, our review included 239 allocable expenditures (no bank transfers) totaling $137,381 relating to items such as payroll, shelter costs, independent contractors, and non-payroll transactions. Our analysis of these transactions revealed the following:

- For 28 of these 239 transactions (12%) the Agency allocated a percentage of the indirect expense to the group home program. However, we were unable to verify that the percentage used was based on one of the acceptable allocation

methods identified in the Circular such as the Direct Allocation method, or Simplified Allocation method.

- For 13 of these 239 transactions (5%) the Agency charged 100% of the expenditure to an Administrative cost center. However, the Agency did not allocate the costs accumulated in the Administrative cost center back to the respective programs that benefited from these costs using an equitable distribution basis.

- For 80 of these 239 transactions (33%) the Agency did not provide us with adequate supporting documentation for us to ensure the expenditure had been allocated appropriately.

Prospectively, the Agency needs to develop a cost allocation plan in accordance with the standards set by the Circular. By appropriately accounting for each program, CYSAF and the County can better determine the disposition and status of program funds.

Recommendation

CYSAF management:

7. **Prospectively, develop a cost allocation plan in accordance with OMB standards and allocate the indirect expenditures between the group home program and any additional programs maintained by the Agency.**

DCFS Overpayments

We identified $52,433 in potential DCFS overpayments. Details of these overpayments are discussed below.

Overpayments

DCFS claims the Agency has an overpayment of approximately $38,094 for the review period. Agency management stated their records indicate these overpayment amounts should be significantly less and has been working with DCFS since October 2004 to resolve the overpayment issues. CYSAF and DCFS need to work together to resolve overpayments in a more timely manner.

Rates Discrepancy

A rate letter received during our review period from the California Department of Social Services (CDSS) to the Agency indicating the group home rate was being increased from $4,272 to $4,479 effective September 1, 2002. CYSAF's group home rate had been reduced to $4,272 for failure to submit a financial audit report timely and was to be reinstated to $4,479 upon submission of the financial audit report. We noted that DCFS had been paying the rate of $4,479 since October 2001. This resulted in

overpayments of approximately $14,339 to the Agency for accrual periods September 2001 to August 2002. We recommend that DCFS management determine why CYSAF's group home rate was not originally reduced and work with CYSAF to resolve the overpayment discrepancy.

Recommendation

8. **DCFS management resolve the $38,094 in apparent DCFS overpayments with CYSAF and the $14,339 in overpayments resulting from a rate discrepancy and, if applicable, collect any overpaid amounts.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

Our review disclosed compliance issues and internal control weaknesses in addition to those already mentioned. DCFS needs to ensure that CYSAF's management takes appropriate corrective actions to address each of the internal control recommendations and monitor to ensure the corrective actions result in permanent changes.

Inadequate Accounting and Disbursement Controls

We noted the following weaknesses in the Agency's accounting and disbursement procedures.

General Ledger Postings

According to Section A.2.4 of the A-C Handbook, a general ledger shall be maintained with accounts for all assets, liabilities, fund balances, expenditures and revenues. In addition, section A.2.0 of the A-C Handbook indicates that postings to the general ledger should be made on a monthly basis. The Agency migrated from a manual to an automated accounting system during our review period. We analyzed 245 expenditure transactions totaling $149,616 to ensure they were appropriately posted in the general ledger. We noted the following:

- 55 of the 245 (22%) transactions reviewed totaling $11,163 were not posted in the general ledger.
- 13 of the 245 (5%) transactions reviewed were posted in the general ledger, but to the wrong account.
- 78 of the 245 (32%) transactions reviewed were posted in the general ledger. However, the Agency did not provide enough support to ensure the transaction was recorded to the correct account.
- 12 of the 245 (5%) transactions were recorded as liabilities but were not posted to an expense account when paid.

- 3 of the 251 (1%) transactions were recorded for the incorrect expenditure amount.

We also reviewed the 110 payments made by DCFS to the Agency during our review period. We were unable to trace eight payments totaling $7,225 in revenue received from DCFS to the Agency's general ledger or cash receipts ledger. We also noted that five payments totaling $7,234 were recorded in the Agency's general ledger, but could not be traced back to the record of payments made by DCFS. Agency management indicated there are numerous erroneous postings in the general ledger due to migrating from a manual to automated accounting system.

It is essential that all revenue and expenditure transactions be accurately recorded in the Agency's general ledger in order for the Agency to determine the results of its operations, financial condition and disposition of funds paid by DCFS.

Bank Reconciliations

A-C Handbook Section B.1.4 states that monthly bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. We noted that the Agency did not reconcile any of the bank statements during our review period. CYSAF management indicated that the Agency did not have an accountant from 2003 until August 2004 which resulted in bookkeeping activities being postponed.

Disbursement Procedures

Our review disclosed the following weaknesses in the Agency's disbursement procedures:

- The Agency does not consistently write or stamp "Paid" on paid vendor invoices. We reviewed 95 invoices and noted 64 were not appropriately cancelled. Specifically, 25 invoices were not marked "paid" and did not reference a check number. Also, 39 invoices were marked "paid" but did not reference a check number. To prevent duplicate payments and facilitate identifying supporting documents, all invoices should be marked paid upon payment and referenced to cancelled checks.

- We reviewed CYSAF's timeliness of deposits of DCFS payments and noted 26 (24%) of the 110 DCFS payments totaling $24,912 were deposited an average of 45 days after the warrant issue date. We also noted eight of these 26 (31%) payments totaling $21,730 were greater than $500. The A-C Handbook Section 1.2 states that cash receipts (i.e., cash or checks) totaling $500 or more shall be deposited within one day of receipt. Many agencies that contract with the County have their County payments direct deposited. To ensure timely deposits and increase security over payments, CYSAF should consider using direct deposits.

Fixed Asset Listing

The A-C Handbook Section 4.1 states each Contractor shall maintain a current listing of fixed assets, including the item description, serial number, date of purchase, acquisition cost and sources of funding. An inventory of all fixed assets should also be conducted at least once each year to ensure that all fixed assets are accounted for and maintained in proper working order. CYSAF does not maintain a fixed asset listing.

Voided Checks

The A-C Handbook Section 2.0 states voided checks shall be marked "void" with the signature block cut out and must be filed with the cancelled checks.

The Agency is not voiding checks in accordance with the A-C Handbook requirements. We noted 102 checks totaling $54,318 were never cashed or endorsed by the payee. Of these uncashed and unendorsed checks, we noted the following:

- 28 (27%) of the 102 checks totaling $16,651 were not marked as "VOID" and did not have the signature box cut out as required.

- 64 (63%) of the 102 checks totaling $32,999 were marked "VOID", but did not have the signature block cut out.

Recommendations

CYSAF management:

9. **Ensure all revenues and expenditures are posted to the Agency's general ledger to accurately determine the results of its operations, financial condition and disposition of funds paid by DCFS.**

10. **Ensure bank reconciliations are prepared within 30 days of the bank statement date and are reviewed by management for appropriateness and accuracy.**

11. **Ensure all invoices are marked "Paid" to prevent duplicate payments.**

12. **Ensure all payments on liabilities are also posted to an expense account in the general ledger.**

13. **Ensure expenditures are appropriately posted to the correct account.**

14. **Ensure cash receipts totaling $500 or more are deposited within one day of receipt.**

15. **Create and maintain a fixed asset listing which includes the item description, serial number, date of purchase, acquisition cost and sources of funding of all fixed assets and conduct an inventory of items annually.**

16. **Ensure voided checks are marked "Void" with the signature block removed.**

DCFS management:

17. **Ensure that CYSAF takes appropriate corrective actions to address each of the internal control recommendations in this report and monitor to ensure the corrective actions result in permanent changes.**

Insurance

The group home contract states, without limiting the Contractor's indemnification of the County and during the term of this agreement, the Contractor shall provide and maintain at its own expense certain specified insurance policies.

The Agency's general liability insurance policy does not provide coverage for automobiles, as required by the contract. The contract also states that Los Angeles County should be listed as an "additional insured" on all insurance policies carried by the Agency. We noted CYSAF's workers' compensation insurance policy does not list the County as an "additional insured" party.

Recommendations

CYSAF management:

18. **Ensure general liability insurance coverage is in accordance with the requirements of the group home contract.**

19. **Ensure all group home insurance policies identify the County as an "additional insured" party.**

Payroll/Personnel Controls

CYSAF's payroll and personnel procedures are not in compliance with the Circular A-122 and the A-C Handbook.

- Six (50%) of the twelve employee personnel files reviewed did not contain a salary approval sheet.

- One (8%) of the twelve employee timecards did not report the same number of vacation hours taken as the number of vacation hours reported on the employee

benefits log. The vacation log indicated eight hours were used and the timecard indicated 16 hours were used.

Recommendations

CYSAF management:

20. Ensure personnel files contain authorized salary amounts, or hour rates of pay approved by management.

21. Ensure vacation hours reported on the employee timecard agrees to the vacation hours reported on the employee benefits log.

Independent Contractors

According to Section 18 of the Agency's contract with the County, the Agency shall conform to and abide by all applicable municipal, County, State and federal laws and regulations, including those related to the reporting of income to the appropriate federal and State taxing agencies. In addition, A-C Handbook Section 2.6 states that the Contractor will ensure compliance with all applicable federal and State requirements for withholding payroll taxes, reporting, filing and depositing all applicable taxes.

Our review disclosed the income for one of the Agency's contractor's was not properly recorded. The Agency is required to complete a MISC-1099 form for all contractors who are paid $600 or more in a calendar year. CYSAF paid an independent contractor $922 for accounting services during the year, but did not complete a MISC-1099 form. We also noted that income for one of the Agency's independent contractors was incorrectly reported for calendar year 2004. Form 1099 for this contractor was understated by $1,200.

The Contract Accounting and Operating Handbook Section 3.2 states that supporting documentation is required to be maintained for independent contractors or consulting services. Supporting documentation includes contracts, time and attendance records, billing rates, travel vouchers, time and location of travel, invoices or other supporting documentation detailing the nature of services provided. The Agency could not provide contracts for two of its independent contractors. Therefore, we could not ensure their employment by the Agency was reasonable, related to the group home program and complied with the contract and applicable Federal and State laws and regulations. Agency management should ensure it maintains current contracts detailing the nature of the services provided, term of service, and expected cost for all of its independent contractors.

Recommendations

CYSAF management:

22. **Ensure that all income from independent contractors is properly reported to the federal and State taxing agencies.**

23. **Maintain current contracts detailing the nature of the services provided, term of service and expected cost for all independent contractors.**

County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

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Fifth District

July 10, 2007

Glen Scott, Executive Director
Community Youth Sports and Arts Foundation
4828 Crenshaw Boulevard
Los Angeles, CA 90043

Dear Mr. Scott:

RE: REVIEW RESPONSE TO FISCAL CORECTIVE ACTION PLAN (FCAP) OF COMMUNITY YOUTH SPORTS AND ARTS FOUNDATION – A GROUP HOME FOSTER CARE CONTRACTOR

We have reviewed your fiscal corrective action plan (FCAP) addendum with the last submission date of July 9, 2007 in response to the Auditor-Controller's draft fiscal audit report. The FCAP fully addressed twenty-three recommendations (See Attachment I). In addition, three recommendations directed to DCFS were fully addressed (See Attachment II).

With regard to the $48,550 in questioned costs, a total of $14,553 has been allowed after your agency provided additional information and supporting documentation (See Attachment III) leaving the remaining balance of $33,997 which must be repaid to the Department. Also, the overpayment $52,433 must be repaid. Please call Mark Huang of my staff to schedule an appointment to set up and sign a repayment plan. The plan must be in place by July 24, 2007, or DCFS may take adverse action as stated in your contract.

Please note that we have been relocated to DCFS Headquarter in Los Angeles effective July 2, 2007. If you have any questions, please contact me at (213) 351-3208 or Mark Huang of my staff at (213) 351-3210.

Sincerely,

Sue Harper

Sue Harper, ASM III
Fiscal Monitoring & Special Payments

SKH:MH:mh

C: Mike McWatters, Chief Audit Division
Russell Lingo, Principal Accountant-Auditor

"To Enrich Lives Through Effective and Caring Service"

ATTACHMENT I

COMMUNITY YOUTH SPORTS AND ARTS FOUNDATION (CYSAF)
LOS ANGELES COUNTY AUDITOR-CONTROLLER
REVIEW OF GROUP HOME FOSTER CARE CONTRACT

Summary of Recommendations

Based on the Fiscal Corrective Action Plan (FCAP) dated August 31, 2006 and supplemental information submitted by the Community Youth Sports and Arts Foundation (CYSAF), the status of each of the 23 recommendations is summarized as follows:

- 20 Recommendations (#2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16, 18, 19, 20, 21, 22 and 23) were fully addressed.

- 3 Recommendations (#1, 8 and 17) directed to the Department were addressed (See Attachment II).

Recommendations Fully Addressed

2. **Develop a plan to reduce its credit card debt and minimize future payments for finance charges.**

   Agency Proposed FCAP: *(Credit Card Policy)* All credit card charges must have prior approval. Upon receipt, the monthly credit card statement must be reconciled within the accounting system by Ms. Rene Crawford, a Child Care Worker. When at all financially possible, full payment of the amount due will be paid.

   DCFS Response: DCFS accepts the agency's policy.

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

   Agency Proposed FCAP: *(Petty Cash procedure and Accounts Payable procedure on agency's response)* CYSAF will require the receipt upon the disbursing the petty cash. All the petty cash receipts will be stapled to the Office Fund Voucher and reconciled to replenish the petty cash fund. All the invoices are required to approve payments. All the check bottom stubs will be stapled to the invoices and paid invoices will be filed daily. Two sets of petty cash replenishments were provided.

   DCFS Response: DCFS accepts the Agency's policy after reviewing the supporting documentation provided by CYSAF.

4. **Ensure that group home funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the group home.**

   Agency Proposed FCAP: CYSAF has adopted the allocation plan. Based on the program activity, firstly direct costs will be allocated to the programs, secondly indirect cost will be allocated to various programs according to usage of facility and square footage. All remaining will be considered general administrative and general expenses and allocated appropriately. Unallowable costs such as tax overpayment, unallowable interest, late charge, finance fees and expenditures will not be allocated to L. A. County DCFS programs.

   DCFS Response: DCFS accepts the agency's policy.

5. **Ensure all supporting documentation such as logs, invoices, receipts cancelled checks and other external documents for employee reimbursements and advances are cross referenced and annotated to indicated information such as the name of the employee the funds are advanced to, the amount provided, the item(s) purchased and the amount expended.**

   Agency Proposed FCAP: *(Petty Cash Procedure)* CYSAF will require all the petty cash slips be signed by the person requesting the funds prior to disbursement and the petty cash slip will have a full description of how the funds will be used. Employee must complete a requisition form indicating his/her name, date of request, reason for request, and amount request. Forms must be signed by employee and approved by the finance committee member before check is written. Employee must present receipt to confirm proof of purchase. Three sets of petty cash replenishment were provided.

   DCFS Response: DCFS accepts Agency's policy. After reviewing the petty cash reimbursements, the policy is implemented as stated without significant exceptions.

6. **Consistently report overpayments to DCFS in a timely manner.**

   Agency Proposed FCAP: CYSAF will report the overpayment to DCFS by completing the Payment Resolution Notification Form within thirty (30) days of receiving an overpayment. They will handle the overpayment in one of two ways.

   1. If payment received is 100% incorrect and the entire amount received is overpayment: the check will be voided by writing "VOID" in the center of the check and written under "VOID" be the date client terminated the facility. A letter shall be prepared stating why the check is being returned with reference to the check number and client name and client number.

The check and letter shall be sent via certified mail return receipt requested to DCFS Payment Resolution Unit.

2. If payment received is partially correct: the check will be processed as a receivable and the entire amount received deposited. Immediately a check for the overpayment shall be prepared and a letter prepared stating why the funds are being returned with reference to the check number and client name and client number. The check and letter will be forwarded via certified mail return receipt requested to DCFS Payment Resolution Unit.

DCFS Response: DCFS accepts the agency's policy.

7. **Prospectively, develop a cost allocation plan in accordance with OMB standards and allocate the indirect expenditures between the group home program and any additional programs maintained by the Agency.**

Agency Proposed FCAP: CYSAF has adopted the allocation plan. Based on the program activity, firstly direct costs will be allocated to the programs, secondly indirect cost will be allocated to various programs according to usage of facility and square footage. All remaining will be considered general administrative and general expenses and allocated appropriately. Unallowable costs such as tax overpayment, unallowable interest, late charge, finance fees and expenditures will not be allocated to L. A. County DCFS programs.

DCFS Response: DCFS accepts the agency's policy on cost allocation plan.

9. **Ensure all revenues and expenditures are posted to the Agency's general ledger to accurately determine the results of its operations, financial condition and disposition of funds paid by DCFS.**

Agency Proposed FCAP: *(Monthly End Checklist)* CYSAF will have their CPA review their Financial Reports including Profit & Loss by class and Balance Sheets. *(Accounting Procedure Manual)* CYSAF will have each entry in the accounting system reviewed and approved by the outside accountant. Provision will be made for using recurring General Journal entries for such transactions. Also, General Ledger control accounts will be periodically re-totaled based upon any updating posting.

DCFS Response: DCFS accepts the Agency's policy.

10. **Ensure bank reconciliation is prepared within 30 days of the bank statement date and are reviewed by management for appropriateness and accuracy.**

Agency Proposed FCAP: *(Monthly End Checklist)* CYSAF will have Accounting Personnel reconcile deposits to copies of deposit slips and match

check details to numerical checks. The reconciliation shall be prepared within 30 days of the bank statements, signed by the preparer and reviewed by the management.

DCFS Response: DCFS accepts the agency's policy on bank reconciliation. After reviewing the bank reconciliation provided by the agency, no significant exceptions were found.

11. **Ensure that all invoices are marked "paid" to prevent duplicate payments.**

Agency Proposed FCAP: *(Accounts Payable Procedures Number 5l, 5m on agency response)* Staple the bottom of check stub to the invoices and Write paid check information in the allocation/approval stamped on invoice.

DCFS Response: DCFS accepts the agency's policy.

12. **Ensure all payments on liabilities are also posted to an expense account in the general ledger.**

Agency Proposed FCAP: *(Accounts Payable Procedures Number 5l, 5m on agency response)* Staple the bottom of check stub to the invoices and Write paid check information in the allocation/approval stamped on invoice. *(Accounting Procedure Manual)* CYSAF will have each entry in the accounting system reviewed and approved by the outside accountant. Provision will be made for using recurring General Journal entries for such transactions. Also, General Ledger control accounts will be periodically re-totaled based upon any updating posting.

DCFS Response: DCFS accepts the agency's policy.

13. **Ensure expenditures are appropriately posted to the correct account.**

Agency Proposed FCAP: *(Monthly End Checklist)* CYSAF will have CPA to review the Financial Reports including Profit & Loss by class and Balance Sheets. *(Accounting Procedure Manual)* CYSAF will have each entry in the accounting system reviewed and approved by the outside accountant. Provision will be made for using recurring General Journal entries for such transactions. Also, General Ledger control accounts will be periodically re-totaled based upon any updating posting.

DCFS Response: DCFS accepts the agency's policy.

14. **Ensure cash receipts totaling $500 or more are deposited within one day of receipt.**

Agency Proposed FCAP: *(Accounting Procedure Manual)* CYSAF will generate the deposit slip when cash receipts are posted in the accounting system. All deposits shall be backed up with the stub of deposit slip and bank generated deposit slip. Deposits shall be made within 24 hours of receipt and preparation of the deposit slip.

DCFS Response: DCFS accepts the agency's policy.

15. **Create and maintain a fixed asset listing which includes the item description, serial number, date of purchase, acquisition cost and sources of funding of all fixed assets and conduct an inventory of items annually.**

Agency Proposed FCAP: *(Accounting Procedure Manual)* Periodic count of fixed assets that is reconciled with fixed asset records. The fixed assets subsidiary ledger will contain the full history of each capital asset acquired: original acquisition cost and any additional cost to prepare the asset for use. A list of fixed assets was provided by CYSAF. The Assistant Director/Facility Manager, Roland Freeman, will be responsible for taking a survey/inventory of the agency's fixed assets. The survey/inventory will be performed every six (6) months and a new list of fixed assets will be generated based on the most current survey/inventory.

DCFS Response: DCFS accepts the agency's policy. No significant exceptions were found after reviewing the list of current fixed assets provided by the Agency.

16. **Ensure voided checks are marked "Void" with the signature block removed.**

Agency Proposed FCAP: The signature block on all checks marked VOID will be immediately removed from the check.

DCFS Response: DCFS accepts the agency's policy.

18. **Ensure general liability insurance coverage is in accordance with the requirements of the group home contract.**

Agency Proposed FCAP: CYSAF's general liability insurance coverage is in accordance with the requirements of the group home contract. A copy of certificate of liability insurance was provided.

DCFS Response: DCFS accepts the agency's insurance policy. No significant exceptions were found after reviewing the insurance certificate provided by CYSAF.

19. **Ensure all group home insurance policies identify the County as an "additional insured" party.**

Agency Proposed FCAP: CYSAF's group home insurance policies identify the County as an "additional insured" party. A copy of certificate of liability insurance was provided.

DCFS Response: DCFS accepts the agency's insurance policy to include the County as an "additional insured" party. No significant exceptions were found after reviewing the insurance certificate provided by the Agency.

20. **Ensure personnel files contain authorized salary amounts, or hour rates of pay approved by management.**

Agency Proposed FCAP: *(Accounting Procedure Manual)* A personnel action form will be initiated by the Personnel Department when hiring a new employee. This form containing the employee's rate of compensation and the effective date for salary payment will be routed by hand/by mail/electronically to the Payroll Department. The authorized salary amounts or hourly rates of pay approved by management will be inserted into the personnel files of all employees. CYSAF provided copies of employees authorized salary approved by management as of May 30, 2007.

DCFS Response: DCFS accepts the agency's policy. No significant exceptions were found after reviewing the authorized salary sheets.

21. **Ensure vacation hours reported on the employee timecard agrees with the vacation hours reported on the employee benefits log.**

Agency Proposed FCAP: *(Accounting Procedure Manual)* After all employee vacation and sick leave logged on timecards is reconciled and reported on employee benefit log, the vacation and sick leave hours will be placed in each employees personnel file. Vacation/Sick-personal Time-Worksheet was provided.

DCFS Response: DCFS accepts the agency's policy.

22. **Ensure that all income from independent contractors is properly reported to the federal and state taxing agencies.**

Agency Proposed FCAP: *(Accounting Procedure Manual) (Insert)* All contractors and professional consultants will be required to provide completed W-9, a copy of the license (if applicable), and any other documents required by law of any governing agency of the group home. At the end of the year

Form 1099 will be prepared and filed for any services paid over $600 or the current regulated amount.

DCFS Response: DCFS accepts the agency's policy.

23. **Maintain current contracts detailing the nature of the services provided term of services and expected cost for all independent contractors.**

Agency Proposed FCAP: *(Accounting Procedure Manual)* When retaining Consultants and Professional Services, a written scope of work will be prepared by the requisition unit for the use of a consultant/contract person. Consultant contracts will be prepared by the Legal Counsel and contain the scope of work, specifications, travel and subsistence reimbursement rates, performance duties, reporting and documentation requirements, payment terms, consultant Federal Employer Identification number or Social Security Number and clauses required by the work to be performed. Each consultant will be assigned in writing to a designated Representative who will monitor the work of the consultant.

DCFS Response: DCFS accepts the agency's policy.

mh- 07/10/07
mh- 05/17/07
mh- 02/05/07
mh- 10/26/06

ATTACHMENT II

COMMUNITY YOUTH SPORTS AND ARTS FOUNDATION (CYSAF)
FISCAL AUDIT OF GROUP HOME FOSTER CARE CONTRACT

REVIEW OF EXPENDITURES

Recommendation 1. Resolve the $48,550 in questioned expenditures and, if appropriate collect any disallowed amounts.

DCFS RESPONSE: Please see Attachment III for a breakdown of allowed and disallowed costs.

The Auditor-Controller review disclosed a total of **$48,550** in questioned costs and **$52,433** DCFS overpayments with CYSAF. **$14,553** in questioned costs has been allowed after reviewing the additional information/supporting documentation provided by your Agency (see Attachment III). The remaining **$33,997** including $4,112 reclassified to overpayments in questioned costs is disallowed and must be repaid. Details of these costs are discussed below.

Unsupported/Inadequately Supported Costs

CYSAF had **$37,644** in unsupported and inadequately supported expenditures for items such as payments to employee, independent contractor and Credit Card Company. The Agency was either unable to provide any supporting documentation such as itemized receipts to indicate what was actually purchased or service provided, or the documentation provided was inadequate to establish that the expenditures were reasonable and allowable to carry out the purpose of the group home contract. DCFS will allow **$14,553** after reviewing the additional information/supporting documentation provided by your agency. **The remaining $23,091 is disallowed and must be repaid to DCFS.** (See Attachment IV, IV-1 & IV-2).

- **$9,056**, the amount paid to the Executive Director and Facility Manager for advances and reimbursement. The agency was unable to fully account for these payments made related to even though the Agency was able to provide cancelled checks and some receipts and invoices which they indicated were related to the amount advanced and reimbursed. **$1,937** is allowed after reviewing the supporting documentation. **The $7,119 in questioned costs remains disallowed and must be repaid to DCFS.**

- **$15,177** paid to three independent contractors. The Agency could not provide invoices or other supporting documentation for one of the contractors identifying work performed, hours worked, or the rate charged. For an additional contractor, the documentation provided was inadequate. The only documentation provided was a timesheet that was not signed or dated by the contractor or Agency management. Additionally, the amount paid to one contractor was different than

the supporting documentation. The Agency was unable to provide an explanation for the additional payments. **$11,750** is allowed after reviewing the additional information/supporting documentation. **The $3,427 in questioned cost remains disallowed and must be repaid to DCFS.**

- **$4,791**, paid to credit card payments for items such as office supplies, computer equipment, meals, cell phone charges, furniture, bedding, and gas purchases. No receipts or invoices were provided to support these payments, so **$4,791 remains disallowed and must be repaid to DCFS.**

- **$3,032** paid for items such as cell phone bills, telephones bills and utilities. The Agency was unable to provide any supporting documentation to indicate the purpose of the expenditures. **$866** is allowed after reviewing the additional information/supporting documentation. **The $2,166 in questioned cost remains disallowed and must be repaid to DCFS.**

- **$5,588** paid for items such as accounting services, an equipment lease, consulting services, food, drug testing and a loan. The Agency management provided inadequate supporting documentation to substantiate the expenditures. **$5,588 remains disallowed and must be repaid to DCFS.**

The Auditor-Controller (A-C) Handbook states that all revenues and expenditures shall be supported by original vouchers, invoices, receipts, timecards, travel logs, contract and loan agreements and/or other documentation and the unsupported expenditures shall be disallowed upon audit. Without the supporting documentation, DCFS is unable to determine the allowability. **Based on the additional documentation you supplied DCFS, a total $23,091 remains disallowed and must be repaid to DCFS.**

Unallowable Costs

The Auditor-Controller identified unallowable GH expenditures **$10,906** including $4,112 unreported overpayment that has been reclassified to Overpayments category. The remaining **$6,794** unallowable GH expenditures are as follows:

- **$1,996** in unallowable payroll tax related expenditures. It composed of the following:

  $591 overpayment for payroll tax, including $171 federal payroll tax overpayment and $420 state payroll tax overpayment.

$1,008 paid on a delinquent State payroll tax levy imposed by the Employment Development Department (EDD). This tax payment should have been paid by foster care funds received during the period in which they became due.

$397 paid for unallowable interest, processing and late charges as result of the Agency maintaining a delinquent account.

- **$942** in unallowable credit card finances charges. Cash advances finance charges and late payment fees, which are not allowable according to Federal guidelines (OMB Circular A-122).

- **$3,856** in other unallowable expenditures. It is composed of the following:

  $3,412 paid for the costs related to other programs administered by the Agency.

  $155 paid for insufficient fund penalties from accounts with One United bank.

  $68 in garnishment overpayment.

  $22 in late and finance fees.

  $199 in out of states personal phone calls and late payment fees.

These unallowable costs $6,794 has been disallowed by DCFS and must be repaid to DCFS.

OVERPAYMENTS

Recommendation 8: DCFS management resolve the $38,094 in apparent DCFS overpayments with CYSAF and the $14,339 in overpayments resulting from a rate discrepancy and, if applicable, collect any overpaid amounts.

The Auditor-Controller review disclosed a total of overpayments **$60,657** including $4,112 unreported overpayments which was originally included in unallowable costs by Auditor-Controller. The details are as follow:

- **$38,094** DCFS claims the Agency has an overpayment of $38,094 as of December 31, 2004. Agency management stated their records indicate these overpayment amounts should be significantly less.

- **$14,339** in overpayment resulting from a rate discrepancy. CYSAF's group home rate had been reduced to $4,272 for failure to submit a financial audit report timely and was to be reinstated to $4,479 upon submission of the

financial audit report. The overpayment of $14,339 to the Agency is for the accrual periods September 2001 to August 2002.

- **$4,112** in overpayment which had not been reported to DCFS. The group home contract states that the Contractor shall notify the County within 30 days of the receipt of any payment that is incorrect.

DCFS RESPONSE: We have reviewed the supporting documentation and discussed with the Agency. Agency has agreed to set up a repayment plan for this overpayment.

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

Recommendation 17: Ensure that CYSAF takes appropriate corrective actions to address each of the internal control recommendations in this report and monitor to endure the corrective actions result in permanent changes.

DCFS RESPONSE: We have received the written policies for the internal control recommendations in the fiscal review report. We also requested necessary supporting documentation to ensure the implementation of the written policy prepared by the Agency. No significant exceptions were found after reviewing the supporting documentation provided by the Agency.

SKH:mh