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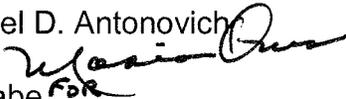
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October 7, 2008

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

FROM: Wendy L. Watanabe 
Acting Auditor-Controller

SUBJECT: **FOOTHILL UNITY CENTER, INC. – A DEPARTMENT OF PUBLIC
SOCIAL SERVICES COMMUNITY SERVICES BLOCK GRANT
PROGRAM PROVIDER**

We have completed a program, fiscal and administrative contract review of Foothill Unity Center, Inc. (Foothill or Agency), a Department of Public Social Services (DPSS) Community Services Block Grant (CSBG) Program provider.

Background

DPSS contracts with Foothill, a private non-profit organization to provide and operate the CSBG Program. The CSBG Program promotes the principles of self-help and assists low-income families and individuals to become self-sufficient including providing job training, counseling, food subsidies, etc. Foothill distributes food to low-income families for approximately 10 days each month. Foothill is located in the Fifth District.

Foothill is compensated on a cost reimbursement basis and had a contract for \$34,496 for Calendar Year (CY) 2007.

Purpose/Methodology

The purpose of the review was to determine whether Foothill complied with its contract terms and appropriately accounted for and spent CSBG funds in providing the services outlined in their County contract. We also evaluated the adequacy of Foothill's

accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of Foothill staff.

Results of Review

Foothill maintained appropriate documentation to support the eligibility requirements and services provided for all 23 participants we reviewed. However, Foothill did not always comply with the County contract. For example, Foothill:

- Inappropriately allocated \$8,000 to the CSBG Program for office space costs during the first eight months of Calendar Year (CY) 2007 based on budgeted and not actual costs.
- Did not adequately segregate their cash handling function. The bookkeeper recorded cash receipts, prepared checks and bank reconciliations, and performed other bookkeeping functions.
- Did not maintain the required level of professional liability insurance coverage.

Details of our review along with recommendations for corrective action are attached.

Review of Report

We discussed our report with Foothill on July 8, 2008. In their attached response, Foothill management concurred with our findings and recommendations. We notified DPSS of the results of our review.

We thank Foothill 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.

WLW:MMO:DC

Attachment

- c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, Department of Public Social Services
Rev. Terry Keenan, President, Board of Directors, Foothill Unity Center, Inc.
Joan E. Whitenack, Executive Director, Foothill Unity Center, Inc.
Public Information Office
Audit Committee

**COMMUNITY SERVICES BLOCK GRANT PROGRAM
FOOTHILL UNITY CENTER, INC.
FISCAL YEAR 2007-2008**

ELIGIBILITY

Objective

Determine whether Foothill Unity Center, Inc. (Foothill or Agency) provided services to individuals that meet the eligibility requirements of the Community Services Block Grant (CSBG) Program.

Verification

We reviewed the case files for 23 (13%) of the 182 program participants that received services during July and August 2007 for documentation to confirm their eligibility for CSBG services.

Results

All 23 program participants met the eligibility requirements for the CSBG Program.

Recommendation

There are no recommendations for this section.

PROGRAM SERVICES

Objective

Determine whether Foothill provided the services in accordance with the County contract and CSBG guidelines.

Verification

We reviewed the documentation contained in the case files for 23 program participants that received services during July and August 2007.

Results

The case files for the 23 program participants contained adequate documentation to support the services billed to the Department of Public Social Services (DPSS).

Recommendation

There are no recommendations for this section.

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue are properly recorded in the Agency'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 Agency's August 2007 bank reconciliations.

Results

Foothill appropriately recorded and deposited cash receipts timely to the Agency's bank account. However, Foothill did not always comply with the County contract. Specifically, Foothill:

- Did not adequately segregate their cash handling function. The bookkeeper recorded cash receipts, prepared checks and bank reconciliations, and performed other bookkeeping functions.
- Twelve (41%) of 29 outstanding checks totaling \$3,067 had been outstanding for more than six months as of August 2007. In addition, the bank reconciliation was not signed by the preparer or the reviewer.

Recommendations**Foothill management:**

1. **Ensure that segregation of duties is maintained over the cash handling function.**
2. **Ensure that reconciling items are resolved timely and that cancelled checks are credited to the appropriate program.**
3. **Ensure that bank reconciliations are signed by the preparer and the reviewer.**

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 other documentation to support four non-payroll expenditures billed by the Agency for July and August 2007, totaling \$2,000.

Results

Foothill inappropriately allocated \$1,000 per month for office space used by multiple programs based on budgeted payroll costs instead of actual payroll costs. In addition, Foothill did not maintain a written Cost Allocation Plan in compliance with the County contract. Foothill charged \$8,000 in space costs during the first eight months of Calendar Year (CY) 2007.

Recommendations

Foothill management:

- 4. Prepare a Cost Allocation Plan in compliance with the County contract.**
- 5. Ensure office space is appropriately allocated and that CSBG Program funds are only used for the program.**
- 6. Recalculate office space costs during CY 2007 based on actual costs and repay DPSS any difference.**

ADMINISTRATIVE COMPLIANCE**Objective**

Determine whether Foothill is in compliance with program and administrative requirements.

Verification

We interviewed Agency personnel and reviewed Foothill's policies and procedures manuals.

Results

Generally, Foothill was in compliance with contract requirements. However, Foothill did not maintain the required level of professional liability insurance coverage.

Recommendation

7. Foothill management obtain the required level of professional liability insurance coverage.

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether Foothill's fixed assets and equipment purchases made with CSBG funds are used for the CSBG Program and are safeguarded.

We did not perform testwork in this section as Foothill did not use CSBG funding to purchase fixed assets or equipment.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the CSBG Program. In addition, determine whether personnel files are maintained as required.

Verification

We traced the payroll expenditures billed for four employees totaling \$2,030 during July and August 2007 to the Agency's payroll records and time reports. We also reviewed the personnel files for the four staff assigned to the program.

Results

Foothill appropriately charged payroll expenditures to the program. In addition, Foothill's personnel files were properly maintained.

Recommendation

There are no recommendations for this section.

COST ALLOCATION PLAN**Objective**

Determine whether Foothill's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

Verification

We interviewed the Agency personnel and reviewed a sample of expenditures incurred by Foothill during July and August 2007 to ensure that the expenditures were properly allocated to the Agency's programs.

Results

As previously mentioned, Foothill did not maintain a written Cost Allocation Plan in compliance with the County contract. In addition, Foothill inappropriately allocated \$8,000 to the CSBG Program for office space costs during the first eight months of Calendar Year (CY) 2007 based on budgeted and not actual costs.

Recommendation

See Recommendations 4, 5, and 6.



Foothill Unity Center, Inc.

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A California Nonprofit Corporation, serving the communities of Altadena, Arcadia, Bradbury, Duarte, Monrovia, Pasadena, Sierra Madre and So. Pasadena

Date: August 19, 2008

To: Wendy Watanabe
Los Angeles County Auditor-Controller
Countywide Contract Monitoring Division
1000 S. Fremont Avenue, Building A-9 East, Unit 51
Alhambra, CA 91803

From: Julie Gentile
Chief Financial Officer
Foothill Unity Center, Inc.

RE: Management Response - Foothill Unity Center, Inc. – A Department of Public Social Services Community Services Block Grant Program Provider, Audit report dated July 8, 2008

As a result of your field visit to the center we have made revisions as necessary to the Fiscal Policy and Procedures Manual. These revisions were adopted and approved by the Board of Director's at various meetings occurring between October 2007 and March 2008. If there is a specific provision in this procedures manual which addresses one of your concerns we have included the text of that provision in this letter. I have sent a complete copy of the most recent Fiscal policy & Procedures Manual under separate cover.

To the best of our understanding we have addressed all areas of concern. We appreciate your time and assistance with this process. If there is any additional information you need please do not hesitate to let us know.

With respect to the above dated report from your office we would like to provide the following responses to your findings:

Cash/Revenue

Finding: Cash function not adequately segregated.

Response: As a result of this audit Foothill Unity Center, Inc. (Foothill) has incorporated changes into their cash handling functions. The following procedures have been added to the Center's Policy & Procedures Manual.

Control over Checks and Cash

It is the policy of Foothill Unity Center that all incoming mail will be imprinted with a date received stamp. Mail will be opened in the presence of two people. Checks received will be noted on the Daily Checks Received Log Form, which will include the date, the name of the payer, the date of the check, the amount of the check, and the invoice number if applicable. Checks will be endorsed before they are given to the bookkeeper. Once the checks have been recorded and the log signed, the checks and a copy of the log will be personally delivered to the bookkeeper, who will sign for checks received. The original Daily Checks Received Log Form will be filed by the executive director and retained until the annual audit. All checks received will be deposited within five business days.

Bank Reconciliation

It is the policy of Foothill Unity Center to address bank statements to the executive director, who will do an initial review of checks that cleared during the prior month. The executive director will forward the bank statement to the bookkeeper who is responsible for bank reconciliation. This individual is not a check signer. The bookkeeper will answer any questions posed by the executive director and prepare the bank reconciliation. The bank reconciliation will be submitted, with the internal financial statements and documentation of voided checks, to the executive director and, if requested, to the Board of Directors. In the absence of the bookkeeper, the designated back-up will prepare the bank reconciliation. The bank reconciliation will be signed by both the preparer and reviewer. Any reconciling items will be resolved in a timely manner and cancelled checks will be properly credited to the appropriate programs prior to preparing the annual financial statements.

Expenditures/Procurement

Finding: Foothill allocated \$1,000 per month of occupancy costs based upon budgeted rather than actual payroll costs. Foothill did not maintain a written cost allocation plan. Allocated costs should be recalculated based upon 2007 actual rather than budgeted costs.

Response: Foothill Unity Center, Inc. (Foothill) has added to the Center's Policy & Procedures Manual the following procedure related to the Allocation of Indirect Costs:

Allocation of Indirect Costs

Foothill Unity Center will allocate indirect costs to various funds/programs based upon personnel expenses. Expenses will be allocated based upon an indirect cost rate which has been computed using the salaries incurred on a per fund basis as a percentage of the total salaries incurred for the organization. Funds which will not support the allocation of indirect costs may not be allocated expenses, and in such cases the indirect expenses associated with these funds will be allocated to the general fund. Under no circumstances will costs which are forbidden by contract be allocated to any fund covered by such contracts.

Recalculation of Occupancy Allocated to CSBG

CSBG funds are used for programs which are supported by several individual employees. These include the Assistant Director, the Client Services Coordinator, the Food Distribution Manager and the Food Assistants. During calendar year 2007 the salaries associated with these positions, which were allocated to the CSBG programs, totaled \$22,496. This allocation is calculated using a percentage of these individuals total hours in relation to hours devoted to this program. Foothill's 2007 salaries totaled \$367,351.74. Therefore, the allocation applicable to CSBG, as a percent of salaries, represents 6.124%.

During 2007 the occupancy costs, subject to program allocation, totaled \$456,962.05. The total occupancy costs allocated to the CSBG grant were \$12,000. This represents only 2.626% of the allocable occupancy costs incurred for 2007.

An allocation to the CSBG grant funds, in accordance with Foothill's published allocation policy, would result in an allocation of indirect costs, related to occupancy, of \$27,983.58 (6.124%). Based upon actual costs, rather than budgeted, additional indirect costs of \$15,983.58 would be allocable to the CSBG Program if the funds were available. Therefore, there is no excess amount to be refunded to DPSS as recommended in your letter.

Administrative Compliance

Finding: Foothill did not maintain the required level of professional liability coverage.

Response: As a result of these audit findings Foothill has reviewed the need for professional liability coverage. We were under the impression that our coverage was sufficient. Foothill provides no case management or counseling services. As a Community Action Agency dealing directly with the state of California, Foothill has not been required to carry any professional liability coverage, and has no exposure for professional liability risk. Therefore, we did not believe that professional liability coverage was necessary within the terms of this contract. Based upon your findings we have re-evaluated our levels of coverage and will amend them to be in compliance with CSBG's contract requirements in the amounts of \$1,000,000 per occurrence and \$3,000,000 in aggregate.