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DEPARTMENT OF AUDITOR-CONTROLLER

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March 2, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe Wendy L. Watanabe
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF ACTS FOR CHILDREN GROUP HOME - A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of ACTS for Children Group Home (ACTS or Agency) from July 1, 2006 through June 30, 2007. ACTS is licensed to operate three group homes (GH), with resident capacities of 28, 16 and 10 children. ACTS' group homes and administrative office are located in San Bernardino County. From January through June 2007, Los Angeles County children accounted for approximately 34% of the Agency's total placements.

The Department of Children and Family Services (DCFS) and the Probation Department contract with ACTS to care for foster children placed in the Agency's homes. DCFS paid ACTS $5,613 a month per child, based on a rate established by the California Department of Social Services (CDSS). During Fiscal Year (FY) 2006-07, the Agency received $1,260,608 in GH foster care funds.

Scope

The purpose of our review was to determine whether ACTS complied with its contract terms and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated ACTS' expenditure and revenue documentation, internal controls and compliance with applicable federal, State and County guidelines governing GH foster care funds.

Summary of Findings

We identified $5,875 in unallowable and unsupported/inadequately supported costs and $10,977 in excessive compensation. In addition, DCFS and ACTS need to work together to resolve some potential overpayments.

We also noted that ACTS loaned $411,000 in unexpended foster care funds to two other County-contracted foster care providers, Trinity Youth Services (TYS) and Advanced Educational Services (AES), a TYS affiliate, without a signed loan agreement. Based on the County contract requirements, it appears that ACTS is not independent from TYS: TYS' Chief Executive Officer and Chief Financial Officer serve in these same capacities at ACTS, and a majority of ACTS' six-member Board of Directors are either members of TYS' Board or employees of TYS.

ACTS' agreement with Los Angeles County expired on October 31, 2008, and the Agency did not receive a new contract. Should DCFS wish to contract with ACTS in the future, the Department will need to work with County Counsel to assess ACTS' independence. We also recommend that DCFS resolve the $16,852 ($5,875 + $10,977) in questioned costs, collect any disallowed amounts and work with County Counsel to determine the remedies available to the County to recover the $411,000 loan ACTS made to TYS and AES.

Finally, we noted some areas where ACTS needs to strengthen its internal controls over its accounting and disbursements procedures, payroll/personnel records and financial reporting requirements. If ACTS contracts with the County in the future, DCFS needs to ensure that these internal control problems are resolved. Details of our findings are discussed in the attached report.

Review of Report

We discussed our report with ACTS management on August 12, 2008. As previously noted, ACTS no longer has a GH contract with the County. If the Agency submits a written response to DCFS, DCFS will incorporate the Agency's response into a Fiscal Corrective Action Plan that will be submitted directly to the Audit Committee. We thank ACTS management and staff for their cooperation during our review.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

Attachment

c: William T Fujioka, Chief Executive Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Ted Myers, Chief Deputy Director, Department of Children and Family Services
Susan Kerr, Senior Deputy Director, Department of Children and Family Services
Robert B. Taylor, Chief Probation Officer
John Neiuber, Chief Executive Officer, ACTS Group Home
Board of Directors, ACTS Group Home
Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept. of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

ACTS Group Home
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $105 in unallowable costs, $5,770 in unsupported/inadequately supported costs and $10,977 in excessive compensation. Details of these costs/overpayments are discussed below.

Applicable Regulations and Guidelines

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

- GH Contract, including the Auditor-Controller Group Home 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 Costs

The Agency paid $71 in non-sufficient fund bank charges and $34 in finance charges. Circular Sections B.16 and 23 state that fines, penalties and interest payments are unallowable.

Unsupported/Inadequately Supported Costs

A-C Handbook Section A.3.2 states that all expenditures shall be supported by original invoices, receipts, contracts, loan agreements or other documentation. Internally generated documents (e.g., vouchers, requisitions, petty cash logs, etc.) and account statements are not adequate supporting documentation. Unsupported and inadequately supported expenditures shall be disallowed upon audit.

We noted $5,770 in inadequately supported expenditures:

- $4,423 in gasoline, registration fees and financing fees for two vehicles. The Agency did not maintain mileage logs for the vehicles. One vehicle is used to do the maintenance at the three group homes. The other is used by the Agency's Campus Director/Clinical Coordinator. These vehicles are taken home by the employees at the end of the day. A-C Handbook Section A.3.2 requires vehicle mileage logs showing dates, destination and headquarters, purpose of trip, and beginning and ending odometer readings and resulting mileage. Vehicle mileage logs must clearly identify business versus non-business, or personal travel.

- $1,316 paid to two independent contractors; $928 in payments in excess of the agreed contract limit for one contractor, a $340 payment to a contractor with no contract and $48 to a contractor for four hours of social work that were not supported by the therapy sessions log.

- $31 in credit card and petty cash to Subway sandwiches and other undocumented petty cash disbursements. The Agency did not provide any documentation showing how the expenses related to the group home program.

Excessive Salary Compensation

A-C Handbook Section C.1.5 states that only expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the group home are allowable. A-C Handbook Section B.3.2 states that a Child Welfare League of America (CWLA) Salary Study may be used to determine a reasonable level of compensation for Agency personnel.

ACTS' Campus Director/Clinical Coordinator received an annual salary of $100,006. The CWLA Salary Study indicates that a Director of Major Programs of a facility with less than $5 million in funding would earn approximately $67,722 annually. Of the total excess compensation of $32,284 ($100,006-$67,722), approximately $10,977 was paid using County Foster Care funds.

Recommendations

1. **DCFS management resolve the $16,852 ($105 + $5,770 + $10,977) in questioned costs and collect any disallowed amounts.**

If ACTS contracts with the County in the future, ACTS management:

2. **Consistently maintain adequate supporting documentation for all expenditures, including mileage logs, contracts and original itemized receipts/invoices.**

3. **Ensure salaries are commensurate with the CWLA study, or other regionally accepted salary studies for non-profit social service agencies.**

4. **Ensure that foster care funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the Group Home.**

MANAGEMENT AGREEMENT AND AGENCY MANAGEMENT

Effective July 1, 2006, ACTS entered into a Management Agreement with Trinity Youth Services (TYS or Trinity), another County contract foster care provider, to provide management, personnel, program, and support service functions for ACTS. TYS' Board of Directors, Chief Executive Officer (CEO) and Executive Director (ED) of Residential Programs served in these same capacities at ACTS. With these actions, TYS assumed control of ACTS. DCFS determined that TYS violated Section 22.0 (Assignment/Delegation of Rights) of its County contract by assuming control of the County's payments to ACTS without prior approval and placed TYS on "Administrative Hold". In addition, our review of ACTS financial records also disclosed the following:

- TYS receives all of ACTS group home revenues.
- Purchases over $500 by ACTS must also be approved by Trinity's ED. Purchases over $3,000 also require approval by the CEO of Advanced Educational Services (AES), a school affiliated with TYS.
- AES' CEO authorizes all disbursements from ACTS' general and payroll checking accounts.
- TYS replenishes ACTS petty cash fund on a weekly basis.

In its November 8, 2007 notice to TYS, DCFS cited the violation of contract Section 22.0, along with observations of expired food at Trinity locations and Trinity requiring placed children to spend their clothing allowance at a Trinity owned and operated store as the basis for the Administrative Hold previously mentioned.

In response to the deficiencies cited in the November 8th letter, Trinity terminated the Management Agreement with ACTS on January 29, 2008. DCFS lifted the Administrative Hold on January 31, 2008.

Subsequent to the termination of the Management Agreement, it appeared that Trinity continued to control ACTS. Specifically, Trinity's CEO and Chief Financial Officer (CFO) continued to serve in these same capacities at ACTS. In addition, three members of Trinity's Board of Directors and Trinity's Director of Development served on ACTS' six-member Board of Directors. Since two key management positions at ACTS were held by Trinity employees and a majority of the ACTS' Board of Directors were also Trinity Board members or employees, we concluded that ACTS was not independent of Trinity, and Trinity may still be in violation of Section 22 of its County contract. Trinity maintains that ACTS is an independent agency.

In August 2007, DCFS issued a Request for Statement of Qualifications (RFSQ) for Group Home and Foster Family Agencies. ACTS was one of 39 agencies that did not respond to the RFSQ by the February 29, 2008 deadline. Accordingly, ACTS' contract with the County terminated on October 31, 2008.

Should DCFS wish to contract with ACTS in the future, the Department will need to work with County Counsel to assess ACTS' independence.

Recommendation

5. **If ACTS contracts with the County in the future, DCFS work with County Counsel to assess ACTS' independence.**

USE OF UNEXPENDED FUNDS

We noted that ACTS loaned $411,000 in unexpended foster care funds to TYS and AES. Trinity's Management stated these loans were made to TYS and AES for payroll and other operating expenses. However, Trinity and ACTS did not provide a loan agreement showing amounts loaned or repayment terms. In addition, there was no discussion of the loans in the minutes of the meetings of ACTS' Board of Directors. Section 8.2 of the County contract states the contractor shall use AFDC-FC funds for the care and services of placed children.

As previously discussed, ACTS' Group Home contract with the County expired on October 31, 2008 and the Agency no longer provides services to the County. In July, 2008, we advised DCFS that they should consult with County Counsel immediately to determine if the loaned funds can be recovered from TYS, ACTS or AES and if appropriate, take action to collect funds that should be returned to the County.

Recommendation

6. **DCFS management work with County Counsel to determine the remedies available to the County in recovering the $411,000 loan ACTS made to Trinity Youth Services and Advanced Educational Services.**

POTENTIAL DCFS OVERPAYMENTS

DCFS records show some potential overpayments. DCFS and ACTS should work together to resolve the overpayments, and DCFS should collect any verified overpayments. If ACTS contracts with the County in the future, ACTS management should ensure that any payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

Recommendations

7. **DCFS management work with ACTS to resolve the overpayments and collect any verified overpayments.**

8. **If ACTS contracts with the County in the future, ACTS management ensure that any payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several contract compliance and internal control weaknesses. DCFS should ensure that ACTS management takes action to address the recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Accounting Procedures and Records

We noted the following weaknesses in ACTS accounting procedures and records.

- The Agency's fixed asset listing does not contain the serial number and source of funding, nor does the Agency conduct an annual inventory of its assets as required by the A-C Handbook section B.4.2.

- ACTS did not account for the individual children's clothing allowance as required by their contract. GH contract Section 3.15 requires the contractor to provide each child a clothing allowance of at least $50 a month from the AFDC payment. Unspent allowances must be deposited in the placed child's account and accompany the child when the child's placement is terminated. We noted that ACTS did not track the amount spent on each child for clothing and as a result, was unable to determine if an individual child had an unspent balance when placement was terminated. ACTS did not issue clothing payments to children when placement was terminated. We were not able to determine how much ACTS may have inappropriately retained in unspent clothing allowances.

Recommendations

If ACTS contracts with the County in the future, ACTS management:

9. **Ensure the fixed asset listing contains the serial number and source of funding and that an inventory is conducted at least once a year.**

10. **Account for individual clothing allowances in their accounting records and ensure clients are given unspent allowances when placements are terminated.**

Payroll/Personnel Controls

We noted the following internal control weaknesses over payroll and personnel:

- Timecards of three of 12 employees (25%) were not signed by the employee and eight of 12 (67%) were not signed by a supervisor as required by A-C Handbook section B.3.1.

- Three of 12 employees' (25%) personnel files did not have the employee's authorized salary rate as required by A-C Handbook section B.3.2.

- The Agency overpaid one employee a total of $287. The employee was incorrectly paid regular and overtime hours.

Recommendations

If ACTS contracts with the County in the future, ACTS management:

11. Ensure all timecards are signed by the employee and a supervisor.

12. Ensure all personnel files contain the employees authorized salary rate.

13. Resolve the overpayment amount and ensure all timecards are reviewed for accuracy prior to processing payment.