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March 3, 2009

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF SONYA LOVE GUIDANCE CENTER - A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of Sonya Love Guidance Center (Sonya or Agency), also known as Alpha Entrepreneur and Health Foundation, from January 1, through December 31, 2007. Sonya is licensed to operate one group home (GH) with a resident capacity of six children. Sonya is located in the Second Supervisorial District.

The Department of Children and Family Services (DCFS) and the Probation Department (Probation) contract with Sonya to care for foster care children placed in the Agency's home. DCFS paid Sonya $5,613 a month per child, based on a rate determined by the California Department of Social Services. During calendar year 2007, the Agency received $322,025 in GH foster care funds.

Scope

The purpose of our review was to determine whether Sonya complied with the contract terms and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated Sonya's 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 $9,008 in unallowable costs and $10,501 in unsupported/inadequately supported costs. In addition, DCFS and Sonya need to work together to resolve some potential overpayments.

Sonya's audited financial statements as of December 31, 2005 show $20,251 in negative net assets. The Agency's unaudited Statement of Financial Position as of December 31, 2007 indicates $17,240 in negative net assets. Sonya also owes $35,981 in delinquent federal payroll taxes, interest and penalties. If the Agency incurs future operating losses, it is unclear how the Agency could cover the losses, since it has no reserves.

Finally, Sonya needs to adequately document its board of directors' meetings and strengthen its internal controls over cash disbursements, transaction classification and payroll/personnel procedures. Details of our findings are discussed in the attached report.

The findings noted in this report are significant and Sonya needs to provide DCFS a corrective action plan to address the recommendations. The corrective action plan must also demonstrate how the Agency plans to continue to provide an adequate level of care without using current period foster care funds to pay for liabilities that originated in prior contract periods.

Further, we have recommended that DCFS resolve the questioned costs and collect any disallowed amounts.

Review of Report

We discussed our report with Sonya's management on June 19, 2008. The Agency will provide their response to DCFS who will prepare a Fiscal Corrective Action Plan and submit it directly to your Board. We thank Sonya's 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
Dexter Love, Executive Director, Sonya Love Guidance Center
Board of Directors, Sonya Love Guidance Center
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Sonya Love Guidance Center
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $9,008 in unallowable costs and $10,501 in unsupported/inadequately supported costs. In addition, DCFS and Sonya need to work together to resolve some potential overpayments. Details of these costs/overpayments are discussed below.

Applicable Regulations and Guidelines

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

- GH Contract, including Exhibit C-2, 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

We identified $9,008 in unallowable expenditures:

- $8,562 in delinquent federal payroll taxes and penalties covering the quarterly tax periods ended December 2004, March 2006 and June 2007, and penalties for untimely filing of the 2004 Return of Organization Exempt from Income Tax (Form 990).
- $446 in other unallowable costs; $425 in parking violations and DMV registration penalties, $17 in late fees and finance charges from cell phone companies and $4 in cigarette purchases.

Circular Sections 16, 19 and 23 state that penalties, interest and goods or services for personal use are unallowable. In addition, A-C Handbook Section A.2.6 states that the Agency will ensure compliance with all applicable federal and State requirements for withholding payroll taxes, reporting, filing and all applicable tax deposits. As discussed in the Financial Viability section below, the Agency has negative net assets. In addition, the Agency's cash on hand is insufficient to address this liability. Accordingly, it is

unclear how Sonya will pay its tax liability without using current period foster care funds. Using current period foster care funds to pay prior years' delinquent taxes is not allowable.

Unsupported/Inadequately Supported Costs

A-C Handbook Section A.3.2 states that all expenditures shall be supported by original vouchers, invoices, receipts, or other supporting documents, and that unsupported expenditures will be disallowed upon audit.

We identified $10,501 in group home expenditures that were either unsupported, or were inadequately supported. Specifically:

- $8,667 in independent contractor payments made to the group home Administrator. Under the independent contractor agreement, the Administrator was required to perform duties such as representing the Agency in its interactions with federal, State and County agencies; organizing staff development and establishing relationships with other agencies that can provide services and resources to Sonya. These activities should be the responsibility of the Agency's Administrator, without additional compensation. In addition, to the independent contractor payments appearing to duplicate the Administrator's salary, the invoices for these payments did not support the total payments to the Administrator.

- $1,834 in inadequately supported costs for items such as gasoline, furniture, groceries, telephone, and facility repairs. The Agency did not provide itemized receipts or other supporting documents. As a result, we could not determine if these expenses benefited the group home program.

Recommendations

DCFS management:

1. **Resolve $19,509 ($9,008 + $10,501) in questioned costs and collect any disallowed amounts.**

Sonya's management:

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

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

FINANCIAL VIABILITY

Sonya's audited financial statements as of December 31, 2005 show $20,251 in negative net assets. The Agency's unaudited Statement of Financial Position (SFP) as of December 31, 2007 shows $17,240 in negative net assets. As a result, it is unclear how the Agency could cover future operating losses that may occur. According to the unaudited SFP, the Agency has insufficient cash and other liquid assets to address operating losses. Problems in Sonya's financial condition could reduce its ability to provide an adequate level of care to placed children.

Sonya's management needs to develop a plan demonstrating how it will continue to provide an adequate level of care while addressing its financial issues. DCFS must carefully monitor the Agency to ensure that service quality is maintained at an acceptable level.

Recommendations

4. **Sonya management develop a plan demonstrating how it will provide an adequate level of care while addressing its financial issues.**

5. **DCFS management carefully monitor the Agency to ensure that service quality is maintained at an acceptable level.**

PAYROLL TAX LIABILITY

The Agency established an agreement to repay $35,981 in delinquent payroll taxes, penalties and interest, for the quarterly tax periods ended December 2004, June 2006, September 2006, December 2006, and penalties for untimely filing of the 2004 Organization Exempt from Income Tax (Form 990) Return. The repayment agreement indicates that the Agency will pay $1,000 a month.

Because the Agency has negative net assets of $17,240 as of December 31, 2007, it is unclear how the Agency will be able to pay its delinquent tax liability without using current period foster care contract funds. Current period foster care contract funds cannot be used to pay a liability that originated under a prior contract term. Further, Circular sections 16 and 23 prohibit foster care funds from being used for penalties and interest. Sonya management should submit a plan to DCFS demonstrating how the Agency will repay its payroll tax liability without using current period funds.

Recommendations

6. **DCFS management ensure that foster care funds are not used to pay penalties and interest.**

7. **Sonya management submit a plan to DCFS demonstrating how the Agency will pay its payroll tax liability without using current period funds.**

POTENTIAL DCFS OVERPAYMENTS

DCFS records show some potential overpayments. DCFS and Sonya should work together to resolve the overpayments, and DCFS should collect any verified overpayments. Sonya's management should ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

Recommendations

8. **DCFS management work with Sonya to resolve the overpayments and ensure that Sonya reimburses the County for any confirmed overpayments.**

9. **Sonya management ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted the following internal control weaknesses during our review.

Board Minutes

California Corporations Code Section 6320 requires nonprofit corporations to keep written records of board meetings.

We noted that the Sonya's Board minutes do not consistently include the details of what was discussed during the meetings, nor were the minutes signed by the Board, certifying their accuracy. Sonya's board of directors should ensure that minutes of their meetings include a record of who was present, what actions were taken, what was discussed, and the results of all votes taken.

Recommendation

10. **Sonya's board of directors ensure that minutes of their meetings include a record of who was present, what actions were taken, what was discussed, and the results of all votes taken.**

Accounting and Disbursement Procedures

We noted the following issues with the Agency's accounting and disbursement procedures:

- The Agency issued 26 checks, totaling $47,650, where the check signer was also the payee. On checks were the signer is also the payee, a second signature by someone independent of the payee (such as a Board member) should be required to verify the appropriateness of the expense.

- Three of 32 expenditure items, totaling $646, were not properly classified on the general ledger. For example, one expense item was identified on the general ledger as Auto Operation. When we reviewed the receipt, the expense was for telephone charges. A-C Handbook Section A.2.5 indicates that an agency must post transactions of a similar nature to the same account.

Recommendations

Sonya management:

11. **Require a second signature by an independent party on all checks where the payee and the check signer are the same employee.**

12. **Properly classify expenditures on the general ledger in a consistent manner.**

Payroll/Personnel Controls

CDSS MPP Section 11-402 requires agencies to maintain supporting documentation for all program expenditures, including employee salary rates. In addition, A-C Handbook Section B.3.1 states that timecards or time reports must be prepared for each pay period, and all timecards or time reports must be signed by the employee and supervisor to certify the accuracy of the reported time.

We sampled six employee personnel files and payroll records and noted three personnel files did not contain the employee's current salary rate.

Recommendation

13. **Sonya management ensure employee pay rates are consistently documented and updated in the employee's personnel file.**