COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

MARIA M. OMS
CHIEF DEPUTY

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO

April 8, 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 RENAISSANCE UNLIMITED GROUP HOME, INC - A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of Renaissance Unlimited Group Home, Inc. (Renaissance or Agency) from January 1, through December 31, 2006. Renaissance is licensed to operate two group homes (GH), each with a resident capacity of six children. Renaissance is located in the Second Supervisorial District.

The Department of Children and Family Services (DCFS) and Probation Department contract with Renaissance to care for foster care children placed in the Agency's homes. The County paid Renaissance $3,344 a month per child, based on a rate determined by the California Department of Social Services. During calendar year 2006, the Agency received $383,641 in GH foster care funds.

In addition to its Group Home agreement with DCFS, Renaissance operated a Transitional Housing Placement Program and a State Nutrition Program. These programs were funded by Los Angeles County and the State. Our review was limited to the GH program as requested by DCFS.

Scope

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

Summary of Findings

We identified $11,732 in unallowable costs such as finance charges and late fees and $77,847 in unsupported/inadequately supported costs consisting of items such as lease payments on a facility that is not used exclusively for the GH.

We also noted that Renaissance had an operating loss of $44,035 in 2005. As of December 31, 2005, Renaissance had negative net assets of $62,866 and a total debt of $176,776, of which $24,810 were loans from Agency officers. As of December 31, 2006, loans from officers had increased to $71,310. It appears Renaissance is operating at a loss and is borrowing to fund its operations which could result in the Agency being unable to sustain its operations.

Renaissance needs to develop a cost allocation plan in accordance with Office of Management and Budget Circular A-122. The Agency also needs to strengthen its internal controls over accounting, disbursements, payroll and personnel records and contracting procedures, and maintain minutes of its Board meetings. Details of our findings are discussed in the attached report.

The findings noted in this report are significant. Renaissance needs to provide DCFS a corrective action plan describing how the Agency will address its operating losses and alternatives to fund future losses. In addition, the corrective action plan needs to include how Renaissance will provide an adequate quality level of care while addressing their continuing operating losses.

Further, DCFS needs to resolve the questioned costs and collect any disallowed amounts. Lastly, DCFS needs to ensure that Renaissance's management takes action to address the recommendations in this report and monitor to ensure that the actions result in permanent changes.

It should be noted that our March 8, 2001 report on Renaissance's fiscal operations had 24 recommendations, six of which had not been implemented at the time of this review, as noted in the attached report.

Review of Report

We discussed our report with Renaissance's management on June 12, 2008. The Agency generally agreed with our findings and recommendations and will provide their response to DCFS who will prepare a Fiscal Corrective Action Plan and submit it directly to the Board of Supervisors. We thank Renaissance'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
Christian Onyegbaduo, Executive Director, Renaissance Unlimited Group Home
Board of Directors, Renaissance Unlimited Group Home
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept. of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Renaissance Unlimited, Inc.
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $11,732 in unallowable costs and $77,847 in unsupported/inadequately supported costs. In addition, the DCFS and Renaissance need to work together to resolve some potential overpayments. Details of these costs/overpayments are discussed below.

Applicable Regulations and Guidelines

Renaissance 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 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 $11,732 in unallowable expenditures:

- $10,846 in finance charges and late fees for two lines of credit ($1,131 to Washington Mutual and $9,715 to Wells Fargo).
- $751 in Not Sufficient Fund (NSF) and bank overdraft fees.
- $135 in traffic violation fines.

Circular Sections 16 and 23 state that finance charges, late fees, NSF fees and fines are unallowable.

Unsupported/Inadequately Supported Costs

A-C Handbook Section A.3.2 states that all revenues and expenditures shall be supported by original vouchers, invoices, receipts, contracts and/or other documentation and that unsupported expenditures shall be disallowed upon audit.

Photocopied invoices or receipts, requisitions, canceled checks, etc., and account statements do not constitute supporting documentation for purchases.

We identified $77,847 in inadequately supported expenditures:

- $45,508; $36,000 in lease payments and $9,508 in utilities (gas, electric, water and internet) for one of the Agency's group homes. The lease payments and the utilities were paid entirely by the group home program. However, part of the house was used as office space for the Agency's Transitional Housing Placement Program (THPP) program. A-C Handbook Section C.1.0 requires contractors to allocate expenditures that benefit multiple programs/funding sources on an equitable basis. As discussed in the Cost Allocation section of this report, Renaissance needs to develop a cost allocation plan to determine how much of the lease payments/utilities should be charged to the THPP program, and DCFS should recover the costs that were overcharged to the Group Home Program.

- $15,500 in payments for undocumented loans from employees. As discussed in the Accounting Procedures section of this report, Renaissance did not have written agreements for $71,310 in loans from its employees. However, through a review of Agency and employee bank records, we were able to establish that most of the loans appeared to be valid except for $19,500. We are questioning the $15,500 in payments on loans that we could not validate.

- $8,161 in payments to Western Reserve Life, Allstate, Legal Order Payment, Cingular Wireless and other payees. The Agency did not provide documentation to establish that the payments were related to the group homes.

- $5,956; $3,620 in salaries, $320 in vacation pay, and $2,016 in bonus payments to various employees. The Agency did not provide timesheets for the questioned salaries and vacation payments. For the bonus payments, the Agency provided a copy of an employee incentive program. However, the amounts paid to the Program Coordinator did not agree with the program terms. For the other employee bonuses, the Agency did not provide the required Program Coordinator's recommendation and approval by the Executive Director.

- $1,621 in petty cash reimbursements. The Agency did not provide documentation that the payments were related to the group homes.

- $601 in payments to a business line of credit. The Agency did not provide documentation indicating how the credit line funds were used.

- $500 payment to an independent contractor. The Agency provided a contract for consultation and training services and an invoice that indicated service dates. However, the training sign-in log dates did not agree to the invoice service dates.

Recommendations

1. **DCFS management resolve the $89,579 ($11,732 + $77,847) in questioned costs and collect any disallowed amounts.**

Renaissance management:

2. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts.**

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

Agency Financial Condition

Renaissance had a $44,035 operating loss in 2005, and negative net assets of $62,866 and total debt of $176,776 as of December 31, 2005. $24,810 of the debt was for loans from Agency officers. Between December 31, 2005 and December 31, 2006, officers' loans increased from $24,810 to $71,310.

It appears Renaissance is relying on borrowing to fund its operating losses. This could ultimately result in the Agency being unable to sustain its operations. It is unclear how the Agency will repay its liabilities without using current period foster care funds since it has a deficit in net assets. Because the liabilities originated during prior contract periods, the Agency cannot use current period foster care funds to repay the debt.

Renaissance management needs to develop a plan describing how it will continue to provide an adequate level of care while addressing its ongoing operating losses without using current period foster care funds. The agency also needs to provide alternatives to further borrowing to fund its operations. DCFS should closely monitor this plan to ensure that the contractor complies with its plan.

Recommendations

4. **Renaissance management develop a plan describing how it will provide an adequate level of care while addressing its ongoing operating losses without using current period foster care funds.**

5. **DCFS management closely monitor Renaissance's plan for compliance.**

Potential DCFS Overpayments

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

Recommendations

6. **DCFS management work with Renaissance to resolve the overpayments and collect any verified overpayments.**

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

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that Renaissance management takes appropriate action to address each of the recommendations in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

Cost Allocation

In 2001, we issued a report on Renaissance's group home program, which noted that Renaissance's Transitional Housing Placement Program (THPP) costs were inappropriately charged to the group home program. We recommended that the Agency develop and implement a plan in accordance with Circular A-122 and the A-C Handbook to allocate indirect costs among its programs.

In our current review, we noted that the Agency has not developed a cost allocation plan. In addition, as discussed earlier in this report, we noted that the Agency is not allocating the costs of one group home building between the group home program and the THPP program that shares the building.

Subsequent to our March 2001 report, Renaissance took steps to separate the THPP program's accounting records and bank accounts from the group homes. However, in doing so, the Agency now has separate accounting records for these two programs, instead of a single set of records with discreet cost centers for each program. A-C Handbook Section C.2.0 states that contractors who provide additional services are required to allocate expenditures that benefit more than one program on an equitable basis.

Recommendations

Renaissance management:

8. **Develop and implement a plan to allocate its indirect costs in accordance with Circular A-122 and the A-C Handbook.**

9. **Consolidate their accounting records using discreet cost centers to account for each Agency program's revenue and expenditures.**

Accounting and Disbursement Procedures

We noted the following internal control weaknesses in Renaissance's accounting procedures:

- There were no written loan agreements for the $71,310 that the Agency claims were loaned to it by three employees. However, it appears that all but $19,500 of the total claimed loans from the employees was deposited into the Agency's bank account. A-C Handbook Section A.3.2 states that loans from employees need to be supported by a written agreement. This issue was also noted in our March 8, 2001 report.

- The Agency's Group Home accounting records included a year-end liability of $83,014 for a Wells Fargo Line of Credit. The Agency was not able to provide us with documentation that funds received from the Line of Credit were deposited into the Group Home bank account. To the extent the Agency cannot document that the funds were used for the group home program, the liability of the Group Home program should be reduced. We also questioned the interest payments on the Line of Credit because we could not trace the funds to the Group Home bank account.

  In addition, we noted that the Agency made a $500 payment on the Line of Credit using THPP program funds and posted a liability in the Group Home program's accounting records to the THPP program. A-C Handbook Section A.3.2 states that documentation clearly establishing the nature of the expenditure and its relevance to the County program will be required to support an outlay of funds

- The Agency did not cancel invoices/receipts for 11 of 45 payment transactions (24%). Four receipts were not marked "paid" or referenced to the check number and seven packets with multiple receipts were attached to a summary sheet that was marked "paid" and referenced to the check number, but the individual receipts were not marked "paid". A-C Handbook Section B.2.1 requires that all supporting documentation be referenced to check numbers and marked "paid" to prevent reuse or duplicate payments. This issue was also addressed in our March 8, 2001 report.

- The Agency did not consistently record petty cash disbursements, or replenishments to the appropriate accounts. For five of the six petty cash transactions reviewed, the Agency recorded the transaction in an account other than petty cash. For the remaining transactions, the check was payable to the custodian and properly recorded in the petty cash account. However, the amount was never recorded to the related expense account(s), resulting in the underreporting of expenditures. A-C Handbook Section A.2.5 requires contractors to consistently post similar transactions to the same account.

- The Agency does not maintain a current list of fixed assets or conduct an annual inventory of fixed assets. A-C Handbook Section B.4.2 requires contractors to maintain a current list of fixed assets, including the item description, serial number, date of purchase, acquisition cost and sources of funding, and that an inventory of all fixed assets is conducted at least once each year.

Recommendations

Renaissance management:

10. **Ensure all loans from employees have written agreements and provide DCFS with supporting documentation for the source of the $19,500 employee liability, or reduce the liability to the employee.**

11. **Provide DCFS documentation on how the funds from the Wells Fargo credit line benefited the group home program or remove the Wells Fargo and Transitional Housing Placement Program liabilities from the financial records.**

12. **Mark supporting documentation "paid" and reference it to the canceled check.**

13. **Ensure petty cash disbursements and replenishments are properly recorded in their accounting records.**

14. **Maintain a current fixed asset list that includes item description and serial number and conduct an inventory of fixed assets.**

Payroll/Personnel Controls

We noted the following internal control weaknesses in Renaissance's personnel and payroll controls.

- None of the eleven personnel files we reviewed had the employee's authorized salary rate. A-C Handbook Section B.3.2 states personnel and payroll records should include the employee's authorized salary rate. This condition was also noted in our March 2001 report.

- Eight of 11 timecards (73%) were not signed by the employee and none were signed by the supervisor. A-C Handbook Section B.3.1 states that timecards must be signed in ink by the employee and the employee's supervisor. This condition was also noted in our March 2001 report.

- Six of eight hourly employees (75%) did not receive the correct overtime pay. For example, one employee worked 256.5 hours in a month, with several days exceeding eight hours (including one claiming a 28-hour continuous shift) without receiving any overtime pay. California Labor Code Section 510.A states that work in excess of eight hours in one workday, in excess of 40 hours in any one work week, or hours worked on the seventh day of any one workweek shall be paid overtime.

- Five of 11 employees' timecards (45%) reported hours worked that did not agree to the hours paid on the payroll register. We did not determine the over/under payments to these employees because many of them worked overtime hours that were not paid at the appropriate pay rates as indicated above.

- The Agency also does not have a method to track employee vacation balances. A-C Handbook Section B.3.2 states that employee benefit balances (e.g., vacation) should be maintained on at least a monthly basis.

Recommendations

Renaissance management:

15. **Ensure employee pay rates are consistently documented and updated in the personnel files.**

16. **Ensure time cards are consistently signed by the employee and supervisor.**

17. **Ensure employees are paid for all hours worked including overtime paid in accordance with the California Labor Code.**

18. **Maintain employee benefit balances on a monthly basis.**

Independent Contractors

A-C Handbook Section A.2.6 requires agencies to comply with federal and state requirements for filing 1099 (Miscellaneous Income) Forms. The Agency did not have written agreements with one of their independent contractors, a landscape provider. Based on reviews of invoices, the contractor's 1099, observation and discussions with management, we determined the amount paid for services was reasonable. However, Renaissance should ensure they have written agreements with all contractors. This condition was also noted in our March 2001 report.

Recommendation

19. **Renaissance management ensure they have written agreements with all independent contractors.**

Board Meeting Minutes

The Agency did not provide Board meeting minutes for the review period. California Corporations Code section 5215 requires Board minutes to be kept.

Recommendation

20. **Renaissance management ensure they keep copies of Agency Board minutes.**