COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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January 13, 2011

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF PERSONAL INVOLVEMENT CENTER, INCORPORATED – A FOSTER FAMILY AGENCY FOSTER CARE CONTRACTOR**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Personal Involvement Center, Incorporated (PIC or Agency) from July 1, 2006 through June 30, 2007. The purpose of our review was to determine whether PIC complied with the contract terms and appropriately accounted for and spent foster care funds on allowed and reasonable expenditures.

DCFS contracted with PIC to serve as a Foster Family Agency (FFA) to recruit, certify, train and support foster family homes. PIC is located in the Second Supervisorial District. PIC's contract for FFA services expired on October 31, 2009 and was not renewed.

PIC had 71 children placed by Los Angeles County in 25 certified foster homes during the review period. DCFS paid PIC between $1,589 and $1,865 per foster child per month, for a total of $800,852 per year. PIC paid $323,631 (40%) of the funds it received directly to the foster parents, which meets the State's minimum requirement.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayments of questioned costs from fiscal audits. To enable PIC to begin taking corrective action immediately, we discussed the findings and recommendations from our review with Agency management on October 3, 2008. At the request of DCFS, we also issued a separate report to DCFS management on PIC's financial viability on May 28, 2010. The purpose of that report was to assess the accuracy of PIC's unaudited FY 2009 financial statements, which indicated the Agency was operating at a loss.

Results of Review

Our review identified $80,969 in questioned and unsupported/inadequately supported costs. PIC generally agreed with our recommendations and has repaid the $80,969.

As noted earlier, DCFS no longer contracts with PIC for the FFA program. According to DCFS, PIC's FFA contract was not renewed because the Agency could not prove that it was financially viable. PIC's foster homes were placed with other FFAs and there was no need to remove the foster children from the homes.

We noted that PIC's audited financial statements for the year ended June 30, 2006 included a going concern qualification. While the audited financial statements for fiscal years (FY) 2007 and 2008 did not contain this qualification, PIC's total liabilities continued to exceed its total assets. For FY 2009, PIC's unaudited financial statements indicate the Agency's total liabilities exceeded its total assets by $185,070.

PIC also owed $239,662 in delinquent federal payroll taxes, interest and penalties. While the Western Baptist State Convention, an association of over 300 churches, provided a letter guaranteeing at least $300,000 to assist PIC in paying its liabilities, PIC's financial condition continues to be uncertain, and it is unclear how PIC will offset any future operating losses should they occur.

If DCFS considers contracting with PIC for FFA services in the future, the Department will need to require the Agency to submit a plan indicating how they will offset any future operating losses should they occur, and how PIC will pay any remaining tax liability without using current period foster care funds. The plan also needs to address how these objectives will be achieved without affecting PIC's ability to provide an adequate quality level of care.

It should be noted that PIC has other current contracts with DCFS and DMH for Family Preservation, Wraparound, Family Support, and Child Abuse Prevention, Intervention and Treatment. As a result of the financial viability issues noted in this report, we strongly recommend that DCFS and DMH closely monitor their existing contracts with PIC and ensure that PIC's financial viability issues do not affect these other current contracts.

Details of our findings are discussed in the attached report.

Review of Report

We discussed our findings with PIC's management on October 3, 2008 and provided PIC and DCFS a copy of our draft report on April 16, 2009. The Agency generally agreed with our recommendations and has repaid the County the $80,969 in questioned costs identified in our report. As noted above, PIC no longer has an FFA contract with the County. We thank PIC's management and staff for their cooperation during our review.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist DCFS in managing its contractual relationships. Consequently, this report will be forwarded to DCFS in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

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
Antonia Jiménez, Acting Director, DCFS
Marvin J. Southard, Director, Department of Mental Health
Maxine Perryman, Chief Executive Officer, Personal Involvement Center, Inc.
Board of Directors, Personal Involvement Center, Inc.
Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept. of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Personal Involvement Center, Incorporated
Fiscal Review

REVIEW OF EXPENDITURES

We identified $79,229 in unallowable costs and $1,740 in unsupported/inadequately supported costs. Details of these costs are discussed below.

Applicable Regulations and Guidelines

PIC is required to operate its FFA program in accordance with the following federal, State and County regulations and guidelines:

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

Unallowable Expenditures

We identified $79,229 in unallowable expenditures:

- $72,821 in penalties and interest; $52,883 to the Internal Revenue Service (IRS) and $19,938 to the State of California Employment Development Department (EDD), related to delinquent federal and State payroll taxes.
- $3,278 in interest and late fees from a Broadway Federal Bank line of credit.
- $2,670 in late fees, parking violation fines and penalties charged by the State Department of Social Services, Pacific Bell, Verizon Wireless, Minolta Business Solutions, Deluxe Business Checks & Solutions, the City of Los Angeles, and the State of California Division of Occupational Safety and Health (CAL/OSHA).
- $460 in non-sufficient funds and overdraft fees charged by Broadway Federal Bank.

Circular A-122, Sections 16 and 23 state that penalties and interest are unallowable.

Unsupported/Inadequately Supported Expenditures

A-C Handbook Section A.3.2 states that all expenditures must be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed. We identified $1,740 in expenditures that were either not supported or were not adequately supported.

- $1,288 in inadequately supported costs for payments to Bev's Balloon & Flowers, Dell and reimbursements to employees. The Agency provided cancelled checks and bank statements, but no receipts, or the receipts provided were inadequate to establish that the expenses were related to the FFA program.

- $452 in payments to two employees for which the Agency did not provide any supporting documentation.

As discussed in the "Allocation of Costs" section of this report, PIC does not have a documented plan to allocate its costs among its programs and funding sources. As a result, it is possible that some of the questioned costs discussed in this section were related to other programs. Once PIC develops a documented cost allocation plan, DCFS will need to determine the amount of unallowable and unsupported/inadequately supported costs that should be recovered.

On October 22, 2009 PIC signed a repayment agreement with the County for the $80,969 in unallowable and unsupported/inadequately supported costs. PIC had repaid the entire $80,969 as of February 2010.

Recommendations

For all current and future County contracts, PIC management:

1. **Ensure that County contract funds are used for allowable expenditures to carry out the purpose and activities of the Agency.**

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

FINANCIAL VIABILITY

PIC's 2006 audited financial statements included a going concern qualification. The audited financial statements for Fiscal Years (FY) 2007 and 2008 did not contain a going concern qualification. However, PIC's total liabilities continued to exceed its total assets by $945,495 and $345,052, respectively. For FY 2009, the unaudited financial statements indicate total liabilities exceeded the Agency's total assets by $185,070. It appears that, for some years, PIC has relied on donations to offset their operating losses. At the request of DCFS, we performed a separate review of PIC's financial condition. We concluded that, despite a guarantee by the Western Baptist State

Convention, an association of over 300 churches, to provide a minimum of $300,000 to assist in the liquidation of PIC's liabilities, PIC's financial condition continues to be uncertain, and it is unclear how PIC will offset any future operating losses that may occur.

If DCFS considers contracting with PIC for FFA services in the future, they will need to require the Agency to provide a plan demonstrating how it will continue to provide an adequate level of care while addressing its operating losses should losses continue to occur. Given the Agency's tenuous financial position, DCFS will also need to monitor PIC carefully to ensure that service quality is maintained at an acceptable level.

Recommendations

3. **DCFS and DMH management monitor to ensure PIC's financial viability issues do not affect the Agency's other contracts.**

If DCFS considers contracting with PIC for FFA services in the future:

4. **PIC management be required to provide a plan demonstrating how it will provide an adequate level of care while addressing its operating losses, should losses continue to occur.**

5. **DCFS Out-of-Home Care and Fiscal Operations Divisions carefully monitor PIC to ensure that an adequate level of care is maintained.**

PAYROLL TAX LIABILITY

As of June 2009, IRS documents showed that PIC owed approximately $239,662 in delinquent payroll taxes, penalties and interest. Circular A-122 Sections 16 and 23 state that penalties and interest are unallowable costs. As previously indicated, the Western Baptist State Convention has indicated that it will provide a minimum of $300,000 to be used to pay PIC's liabilities.

If DCFS considers contracting with PIC for FFA services in the future, the Department will need to determine if this liability has been paid. If it has not been paid, DCFS will need to ensure that the Agency does not use foster care funds to pay for penalties and interest.

PIC management should also be required to submit a plan to DCFS showing how the Agency will pay its payroll tax liability without using current period foster care funds.

Recommendations

For all current and future County contracts, DCFS and DMH management:

6. **Ensure that the Agency does not use County funds to pay any remaining payroll tax liability, or the related penalties and interest.**

7. **Require PIC management to submit a plan to DCFS showing how the Agency will pay its payroll tax liability without using foster care funds.**

ALLOCATION OF COSTS

A-C Handbook Section C.2.0 states that an agency should allocate expenditures that benefit multiple programs or funding sources on an equitable basis. During our review period, PIC operated Mental Health, Family Preservation, Wraparound, Child Abuse, Family Support, Child Care, and Healthy Marriage programs, in addition to its FFA program.

PIC provided us with percentages used to allocate administrative cost to the various programs. The Agency indicated that the percentages were derived from direct salaries. However, they did not provide documentation showing how they computed the allocation percentages. PIC management should maintain documentation supporting the percentage of administrative cost allocated to each program.

Recommendation

8. **For all current and future County contracts, PIC management maintain documentation to support the percentage of administrative cost allocated to each of the Agency's programs.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several areas where PIC needs to improve its internal control and contract compliance. If DCFS considers contracting with PIC for FFA services in the future, DCFS should ensure that PIC management takes action to address each of the internal control and contract compliance recommendations in this report.

Loan Agreement

A-C Handbook Section A.3.2 states that loans to the Agency should be supported by a written loan agreement.

PIC wrote six checks totaling $82,060 to Praises of Zion Church (PZC). The payments were recorded on PIC's general ledger as a repayment of loans from PZC. We verified that money from PZC was deposited to PIC's bank account. However, PIC management did not have loan agreements with PZC. PIC needs to establish written agreements for all loans indicating the amounts borrowed and the repayment terms.

Recommendation

9. **For all current and future County contracts, PIC management establish written agreements for all loans indicating the amounts borrowed and the repayment terms.**

Children's Weekly Allowance Requirements

FFA Contract Statement of Work Section 3.18 indicates that FFAs must provide weekly allowances to the children that are age appropriate and reasonably commensurate with peer group standards.

We requested the weekly allowance logs for five foster children and did not receive a log for one child. The Agency indicated that the child's file, which was stored offsite, contained the allowance logs. However, the Agency was not able to provide us with the file. Therefore, we were unable to determine if the child was receiving an appropriate allowance from the Agency.

Recommendation

10. **If DCFS considers contracting with PIC for FFA services in the future, PIC management document the allowance paid to each child on an allowance log sheet.**

Initial Clothing Funds

FFA Contract Statement of Work Section 3.13 indicates that FFAs must monitor to ensure that Certified Foster Parents provide each placed child with clothing without requiring the placed child to purchase clothing with his/her own funds. DCFS issues an initial clothing fund for each child entering the Agency's care.

We reviewed the DCFS initial clothing funds issued to five foster children and noted:

- PIC did not have supporting documentation that two foster children actually received the clothing funds from DCFS.
- PIC did not provide receipts or invoices showing that clothing was purchased for any of the five foster children.

Recommendations

If DCFS considers contracting with PIC for FFA services in the future, PIC management:

11. **Document payments from the clothing fund to the foster child or foster parent caring for the child.**

12. **Ensure foster parents provide PIC with receipts or invoices to show that the initial clothing fund was used to purchase clothing for the foster child.**

Bank Reconciliations

A-C Handbook Section B.1.4 requires bank reconciliations be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. The bank reconciliations should be signed and dated by both the preparer and the reviewer.

We reviewed the Agency's monthly bank reconciliations for its general operating and payroll bank accounts and noted:

- 6 (50%) of the 12 bank reconciliations for the general operating account were not prepared within 30 days of the bank statement date.
- 5 (42%) of the 12 bank reconciliations for the payroll account were not prepared within 30 days of the bank statement date.

Recommendation

13. **For all current and future County contracts, PIC management ensure that bank reconciliations are prepared within 30 days of the bank statement date.**

Personnel / Payroll Controls

CDSS MPP Section 11-402 requires that supporting documentation be maintained 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/time reports must be signed by the employee and supervisor to certify the accuracy of the reported time. A-C Handbook Section B.3.2 also indicates that salaried employees who work less than full-time (i.e., 40 hours per week) shall be paid a salary that corresponds with the employees' work schedules.

We sampled the personnel files and payroll records of 12 employees and noted:

- One employee timecard was missing.
- Two employee timecards were not signed by the supervisor.
- One full-time employee was paid for eighty hours during a two-week pay period when the employee's timecard only showed 40 hours worked.

Recommendations

For all current and future County contracts, PIC management:

14. **Ensure timecards are prepared for each employee and signed by the supervisor to certify the accuracy of the reported time.**

15. **Ensure employees are paid based on their hours worked.**

Reporting Payments to Independent Contractors

A-C Handbook Section A.2.6 requires agencies to comply with all applicable federal and State requirements for reporting payments to independent contractors. We noted that PIC did not report payments to three independent contractors to the IRS.

Recommendation

16. **For all current and future County contracts, PIC management ensure that all payments to independent contractors are reported to the federal and State taxing agencies.**

Semi-Annual Expenditure Reports

FFA Contract Section 9 requires PIC to submit Semi-Annual Expenditure Reports of its revenue and expense for Los Angeles County foster children to DCFS. PIC did not submit the Semi-Annual Expenditure Report to DCFS for January 1, 2007 to June 30, 2007.

Recommendation

17. **If DCFS considers contracting with PIC for FFA services in the future, PIC management prepare and submit the Semi-Annual Expenditure Report for January 1, 2007 to June 30, 2007 to DCFS.**

Accounting and Disbursement Procedures

We noted that PIC improperly coded six checks, totaling $172,734, that were for payroll tax payments, as Family Preservation payroll tax expense on the general ledger. These payments should have been recorded as administrative payroll tax expense.

Recommendation

18. **For all current and future County contracts, PIC management properly classifies all expenditures on the general ledger.**