COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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September 1, 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: **LEROY HAYNES CENTER FOR CHILDREN AND FAMILY SERVICES, INC. - A GROUP HOME FOSTER CARE CONTRACT PROVIDER - FISCAL REVIEW**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Leroy Haynes Center for Children and Family Services, Inc., (LHC or Agency) from January 1 to December 31, 2009. LHC is licensed to operate six group homes (GH), each with a resident capacity of 12 children. LHC also operated a Mental Health Program, a Non-Public School and a Transitional Housing Program. LHC's GHs are located in the Fifth Supervisorial District.

DCFS and the Probation Department contract with LHC to care for foster children placed in the Agency's homes. DCFS paid LHC $5,891 per child per month, based on a rate determined by the California Department of Social Services, for a total of $4,519,100. At the time of our review, LHC also had contracts with other counties to place children in LHC's GH program.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable LHC to begin taking corrective action as soon as possible, we discussed the findings and recommendations from our review with Agency management on May 3, 2010.

Summary of Findings

We identified $432 in unsupported/inadequately supported expenditures. LHC also needs to develop and submit a formal Cost Allocation Plan, revise and resubmit Semi-Annual Expenditure Reports for the periods ended June and December, 2009, and submit audited financial statements to DCFS as required by their contract with the County. LHC also needs to strengthen its controls over accounting, disbursements, personnel/payroll records and bank reconciliations. Details of our findings are discussed in Attachment I.

We have recommended that DCFS resolve the questioned costs, and collect any disallowed amounts. DCFS should also ensure that LHC's management takes action to address the recommendations in this report, and monitor to ensure that the actions result in permanent changes.

Review of Report

We discussed our report with LHC's management and DCFS on April 21, 2011. The period from April 21, 2011 to the issuance of this report includes a mandatory 90-day waiting period to allow the Agency to appeal the findings in the draft report. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II), indicates the Agency has repaid the $432 in unsupported, or inadequately supported costs, and generally agrees with our findings and recommendations.

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.

We thank LHC management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MWM

Attachments

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Interim Director, DCFS
Donald H. Blevins, Chief Probation Officer
Reaver E. Bingham, Deputy Chief Probation Officer
Daniel S. Maydeck, President and CEO, LHC
Board of Directors, LHC
Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept. of Social Services
Public Information Office
Audit Committee
Commission for Children and Families

Leroy Haynes Center For Children and Family Services, Inc.
Group Home Contract Provider
Fiscal Review

REVIEW OF EXPENDITURES

We identified $432 in unsupported/inadequately supported expenditures. Details of these expenditures are discussed below.

Applicable Regulations and Guidelines

Leroy Haynes Center for Children and Family Services, Inc. (LHC or Agency) 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 A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unsupported/Inadequately Supported Costs

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

We identified $432 in expenditures that were either unsupported, or inadequately supported.

- $307 in cleaning supplies and toiletries. The Agency did not have inventory distribution logs documenting that the expenses were GH-related.
- $125 overpayment for a temporary bonus payment to one employee. The Agency processed the payment for a full pay period, even though the bonus was only authorized for half of the pay period.

As discussed in the "Allocation of Costs" section of this report, LHC's distribution of its shared expenses was not consistent with Circular A-122 standards. As a result, it is possible that some of the questioned costs discussed in this section were related to the other programs and counties. Once the Agency resolves the cost allocation issues,

DCFS should determine the appropriate amount of unsupported/inadequately supported costs that should be recovered.

Recommendations

1. **DCFS management resolve the $432 in unsupported/inadequately supported costs, and collect any disallowed amounts.**

LHC management:

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

3. **Consistently maintain adequate supporting documentation for all Agency expenditures, including inventory distribution logs to document GH-related expenses.**

4. **Ensure that employee bonuses are only paid for the approved periods.**

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, LHC's Group Home program received funding from a number of sources in addition to Los Angeles County. However, the Agency did not have an adequate cost allocation plan.

LHC significantly revised their cost allocation plan as a result of our review. While the distribution bases in the new plan are consistent with Circular A-122 standards, the Agency's shared expenditures were not allocated among all benefitting programs/cost centers. Specifically, no shared expenditures were allocated to the Agency's Development Cost Center.

LHC must allocate shared expenditures among all benefiting programs/cost centers, including the Development Cost Center, on an equitable basis. LHC must also submit its written cost allocation plan to DCFS for approval. The plan should include the Agency's general accounting policies, basis of accounting (cash or accrual), fiscal year and method of allocating shared costs. It should also identify the Agency's direct and indirect costs by category, and describe the cost allocation methodology for each category. The plan should be signed by management to certify that it is accurate.

Recommendation

5. **LHC management allocate shared expenditures among all benefiting program/cost centers on an equitable basis, and submit a written cost allocation plan to DCFS.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

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

Semi-Annual Expenditure Reports

GH Contract Section 16.2 requires agencies to submit Semi-Annual Expenditure Reports (Reports) to DCFS within 90 days from the end of the reporting period. While LHC provided our auditors with copies of the required reports, DCFS' records indicate that LHC did not submit the June 2009 Report to DCFS. LHC will need to submit revised Reports to DCFS once it resolves the cost allocation issues discussed above.

Recommendations

LHC management:

6. **Ensure Semi-Annual Expenditures Reports are submitted timely as required by the GH Contract.**

7. **Submit revised Semi-Annual Expenditure Reports for the periods ending June and December 2009, once an acceptable cost allocation plan has been developed.**

Accounting and Disbursement Procedures

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

- A-C Handbook Section A.2.0 requires agencies to maintain separate cost center(s), which clearly identify the funds received and expended for the care of placed children under the contract. We noted that LHC does not always identify when GH program expenditures are paid with non-County funds. LHC should ensure that program expenditures paid with non-County funds are identified.

- Proper internal controls require that certain job functions be kept separated to limit the potential for loss or misappropriation of goods. We noted that the employee who is responsible for ordering, receiving and reporting on the distribution of supplies,

also conducts the quarterly physical inventory. These functions are incompatible with one another, and the Agency should separate them to the extent possible.

- A-C Handbook Section B.4.2 requires agencies to keep a current listing of fixed assets, including the item description, serial number, date of purchase, and source(s) of funding. Agencies should also tag their fixed assets, and conduct an inventory of the fixed assets at least once each year to ensure all assets are accounted for and maintained in proper working order. LHC's fixed asset list includes only the general categories of its fixed assets (e.g., Furniture, Fixtures, Equipment, etc.), and does not include the required detail for each asset, such as the asset's physical location, serial number, or other identifying information, etc. In addition, LHC does not tag all fixed assets or conduct a fixed asset inventory at least once a year.

Recommendations

LHC management:

8. **Identify GH program expenditures paid with non-County funds.**

9. **Separate the functions of ordering, receiving, distributing and inventorying supplies, to the extent possible.**

10. **Keep a fixed asset listing that includes the item description, serial number, date of purchase and source(s) of funding; tag all fixed assets; and conduct an inventory of fixed assets at least once each year.**

Personnel/Payroll Controls

A-C Handbook Section B.3.1 states that timecards or time reports must be prepared for each pay period, and be signed by the employee and supervisor to certify the accuracy of the reported time.

We sampled the personnel and payroll records of eight employees and noted:

- One employee did not complete a timecard.

- Three timecards were not signed by the employee.

- Four timecards were not signed by the employees' supervisors.

- Two timecards were processed without the required timecard adjustment form. LHC employees are supposed to clock in/out. If an employee does not clock in/out, they are supposed to submit a signed timecard adjustment form. The two employees in our sample did not clock in and/or out, and did not submit the required forms. In

order to process the payroll on time, the payroll clerk recorded the employees' time based on the employees' verbal confirmation of their hours worked.

In addition to the timekeeping issues discussed above, we noted an instance where benefit payments to one employee were not processed in accordance with Agency policy. Specifically, LHC allows employees to sell back accrued "Paid Time Off", but only at the beginning of each calendar year. We noted one instance where an employee was allowed to sell back his/her time in September.

Recommendations

LHC management:

11. **Ensure all employees prepare timecards, and that employees and supervisors sign the timecards to certify the accuracy of the reported time.**

12. **Keep all documents necessary to support payroll payments, including authorized timecard adjustment forms when necessary.**

13. **Ensure benefit payments are processed in accordance with Agency policies.**

Bank Reconciliations

A-C Handbook Section B.1.4 requires bank statements be reconciled by someone with no cash handling, check writing, or bookkeeping functions. Section B.2.1 requires that unclaimed or undelivered checks be cancelled periodically. The Agency's accountant, who is also the petty cash custodian, writes checks, keeps the accounting records, and also reconciles the bank statements for two of three Agency bank accounts. This same condition was also noted in our June 2009 report on the Agency's Mental Health Program, but does not appear to have been corrected.

A-C Handbook Section B.1.4 requires that reconciling items be resolved timely. LHC's Stale Dated Check policy requires that uncashed checks outstanding more than 360 days be investigated. LHC's December 2009 bank account reconciliations included 13 checks, totaling $17,221, that had been outstanding for over 360 days, and two payroll checks, totaling $3,084, that had been outstanding for three months. We believe both timeframes are excessive. LHC should revise their Stale Dated Check policy to ensure outstanding checks are resolved in a more timely fashion (e.g., within 90 days from the date of issuance), and cancel any uncashed checks dated outside the new timeframe.

Recommendations

LHC management:

14. **Ensure bank statements are reconciled by someone with no cash handling, check writing or bookkeeping functions.**

15. **Revise the Stale Dated Check policy to ensure outstanding checks are resolved in a more timely fashion, and cancel any uncashed checks dated outside the new timeframe.**

Reporting Requirements

GH Contract Section 18.8 requires agencies to submit their annual audited financial statements to DCFS and Probation within thirty (30) days after the audit reports are issued.

According to DCFS' records, as of April 2010, the Agency had not given DCFS a copy of their 2008 audited financial statements. We noted the audited financial statements were completed and issued on April 21, 2009. LHC should ensure that it sends DCFS copies of its audited financial statements within the required timeframe.

Recommendation

16. **LHC management ensure it sends copies of its audited financial statements to DCFS within the required timeframe.**

Work Program Administration

LHC operates a work program, which provides onsite employment for its clients. The program requires that the Agency keep half of each client's wages in a savings account, for the client's benefit. We noted that client work program funds, totaling approximately $8,700, were kept in cash in a filing cabinet, and were not recorded in the Agency's financial records. We also noted that the Agency does not have formal policies and procedures to account for or disburse client work program funds.

After we reported this finding to LHC management, the Agency deposited the client funds into a bank account, and updated the Agency's accounting records accordingly. However, the Agency still needs to develop polices and procedures to account for and disburse work program funds and submit them to DCFS for approval.

Recommendation

17. **LHC management develop and implement polices and procedures to account for and disburse work program funds and submit them to DCFS for approval.**

County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
425 Shatto Place, Los Angeles, California 90020
(213) 351-5602

JACKIE CONTRERAS, Ph.D.
Acting Director

Board of Supervisors
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Third District
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Fourth District
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Fifth District

July 28, 2011

Daniel S. Maydeck, President and CEO
Leroy Haynes Center for Children and Family Services, Inc.
233 W. Baseline Road, Box #400
La Verne, CA 91750-2353

Dear Mr. Maydeck:

AUDITOR-CONTROLLER'S FISCAL AUDIT REPORT ON LEROY HAYNES CENTER FOR CHILDREN AND FAMILY SERVICES, INC. – A FOSTER FAMILY AGENCY FOSTER CARE CONTRACTOR

We have reviewed your amended fiscal corrective action plan (FCAP) in response to the Auditor Controller's fiscal audit report for the period of January 1, 2009 through December 31, 2009. The FCAP fully addresses the audit report 17 recommendations (see Attachment III). In addition, the one recommendation directed to DCFS was fully addressed.

If you have any questions, please contact Ali Gomaa-Mersal of my staff at (213) 351-3209.

Sincerely,

Latisha Thompson

Latisha Thompson, ASM III
Fiscal Monitoring and Special Payments

Attachments

c: Mike McWatters, Chief Audit Division (via electronic mail only)
Sandra Gomez, Principal Accountant-Auditor (via electronic mail only)

ATTACHMENT I

FISCAL REVIEW OF
LEROY HAYNES CENTER FOR CHILDREN AND FAMILY SERVICES, INC.

Note: Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

Summary of Recommendations

Based on the amended FCAP dated July 7, 2011, submitted by Leroy Haynes Center for Children and Family Services, Inc., status of each recommendation is summarized as follows:

- 17 Recommendations (1-17) were fully addressed.
- __ Recommendations (_____) were partially addressed.
- 1 Recommendation (1) directed to the Department was addressed.

Recommendation Status

1. **DCFS management resolve the $432 in unsupported/inadequately supported costs and collect any disallowed amounts.**

   Agency Proposed FCAP: *LHC management agrees with the Auditor-Controller and will submit a check in the amount requested to DCFS. Amount of check issued is for $432 to DCFS.*

   DCFS Response: DCFS received a check in the amount of $432.00.

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

   Agency Proposed FCAP: *LHC management will ensure to use foster care funds for allowable expenditures to carry out the purpose and activities of the Agency.*

   DCFS Response: DCFS accepts the agency's response.

3. **LHC management consistently maintain adequate supporting documentation for all Agency expenditures, including inventory distribution logs to document GH related expenses.**

Agency Proposed FCAP: *LHC management agrees to maintain adequate supporting documentation for all expenditures, including original itemized invoices, receipt and distributions. See LHC's Fiscal Manual for policies and procedures.*

DCFS Response: DCFS accepts the agency's response.

4. **LHC management ensure that employee bonuses are only paid for the approved periods.**

   Agency Proposed FCAP: *LHC management will ensure to pay employee bonuses on approved periods per internal policies & procedures. LHC explanation to Auditor's opinion is related to staff training timing.*

   DCFS Response: DCFS accepts the agency's response.

5. **LHC management allocates shared expenditures to all benefiting program/cost centers on an equitable basis and submits a written cost allocation plan to DCFS.**

   Agency Proposed FCAP: *LHC management maintained an allocation method, however; since the Auditor's review LHC management has updated the allocation methodology. The new cost allocation plan distributes all shared expenditures in an equitable basis to all benefiting programs and in compliance with OMB. See LHC's Fiscal Manual for revised allocation methodology.*

   DCFS Response: DCFS accepts the agency's response.

6. **LHC management ensure Semi-Annual Expenditures Reports are submitted timely as required by the GH Contract.**

   Agency Proposed FCAP: *LHC management will ensure it submits Semi-Annual Expenditures Reports in a timely manner per GH contract. Since the Auditor's review LHC has implemented sending report via certified US mail.*

   DCFS Response: DCFS accepts the agency's response.

7. **LHC management submit revised Semi-Annual Expenditure Reports for the periods ending June and December 2009, once an acceptable cost allocation plan has been developed.**

   Agency Proposed FCAP: *LHC management has included a revised June & December 2009 Semi-Annual Expenditure Reports using the revised allocation methodology. See copy attached.*

   DCFS Response: DCFS accepts the agency's response.

8. **LHC management identifies program expenditures paid with Non-County funds by using the fund codes available in the Agency's accounting system.**

   Agency Proposed FCAP: *LHC management agrees with Auditors Controller's recommendation and will ensure it consistently identifies and matches programs expenditures to funding source using Agency's accounting cost center codes. See LHC Fiscal Manual for account structures.*

   DCFS Response: DCFS accepts the agency's response.

9. **LHC management separate the functions of ordering, receiving, distributing and inventorying supplies, to the extent possible.**

   Agency Proposed FCAP: *LHC has implemented the segregations of functions with current staffing levels: Facility Director will do ordering, Facility supervisor will receive and facility staff will distribute and reconcile inventory.*

   DCFS Response: DCFS accepts the agency's response.

10. **LHC management maintain a fixed asset listing that includes the item description, serial number, date of purchase and source of funding; tag all fixed assets; and conduct an inventory of fixed assets at least once each year.**

    Agency Proposed FCAP: *During the Auditor's review LHC was in the process of completing the fixed asset inventory listing. The fixed asset listing includes the item description, serial number, date of purchase and source of funding. All fixed asset are tagged for identification and inventoried at least once each year. In addition, controllable asset, those below capitalization threshold, are also tagged & inventoried at least once each year.*

    DCFS Response: DCFS accepts the agency's response.

11. **LHC management ensures all employees prepare timecards and that employees and supervisors sign the timecards to certify the accuracy of the reported time.**

    Agency Proposed FCAP: *LHC management will monitor to ensure all employees prepare timecards and that both employees and supervisors sign the timecards to certify the accuracy of the reported time.*

    DCFS Response: DCFS accepts the agency's response.

12. **LHC management keep all documents necessary to support payroll payments, including authorized timecard adjustment forms when necessary.**

    Agency Proposed FCAP: *LHC management will ensure to maintain all necessary payroll documents in accordance with Federal and State laws & regulations.*

    DCFS Response: DCFS accepts the agency's response.

13. **LHC management ensures benefit payments are processed in accordance with Agency policies.**

    Agency Proposed FCAP: *LHC management will ensure to follow Agency' policies & procedures and/or legal employee agreement in relation to any payment of employee benefits and/or allowance.*

    DCFS Response: DCFS accepts the agency's response.

14. **LHC management ensure bank statements are reconciled by someone with no cash handling, check writing or bookkeeping functions.**

    Agency Proposed FCAP: *LHC does its best with limited staff in segregating staff duties in order to keep internal controls strong. However, LHC management will explore the possibility of increasing staff.*

    DCFS Response: DCFS accepts the agency's response.

15. **LHC management revise the Stale Dated Check policy to ensure outstanding checks are resolved in a more timely fashion and cancel any uncashed checks dated outside the new timeframe.**

    Agency Proposed FCAP: *LHC management has revised its stale check policy to void checks after six months from issued date. See LHC' Fiscal Manual for policy.*

    DCFS Response: DCFS accepts the agency's response.

16. **LHC management ensures it sends copies of its audited financial statements to DCFS within the required timeframe.**

    Agency Proposed FCAP: *LHC management will ensure to submit Annual Audited Financial Statements Reports in a timely manner per GH contract. LHC. Since the Auditor's review LHC has implemented sending report via certified US mail.*

DCFS Response: DCFS accepts the agency's response.

17. **LHC management develop and implement polices and procedures to account for and disburse work program funds and submit them to DCFS for approval.**

    Agency Proposed FCAP: *LHC management has developed and implemented policies & procedures to account for the treatment of work program funds. See policy attached submitted to DCFS.*

    DCFS Response: DCFS accepts the agency's response.