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

June 5, 2013

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

FROM: Wendy L. Watanabe
Auditor-Controller

Wendy L. Watanabe

SUBJECT: **TRINITY YOUTH SERVICES – A FOSTER FAMILY AGENCY AND GROUP HOME FOSTER CARE CONTRACT PROVIDER – FISCAL AND ALLEGATION REVIEW**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Trinity Youth Services (Trinity or Agency) from July 1, 2008 through June 30, 2009. Trinity has offices in the Fourth and Fifth Supervisorial Districts, and in San Bernardino and Riverside counties.

DCFS contracts with Trinity to provide Foster Family Agency (FFA) services to recruit, certify, train, and support foster family homes. At the time of our review, Trinity had 539 Los Angeles County children placed in 102 certified foster homes. DCFS paid the Agency between $1,589 and $1,865 per child per month, for a total of approximately $3.5 million. Trinity paid approximately $1.4 million (40%) directly to foster parents, which meets the State's minimum requirement of 40%.

In addition, the County contracts with Trinity to care for Probation youth placed in the Agency's group homes (GH). The County pays Trinity $5,891 per child per month, based on a rate determined by the California Department of Social Services, for a total of approximately $8.5 million in GH foster care funds in Fiscal Year (FY) 2008-09.

The issuance of our report to your Board was significantly delayed by two issues. The first issue was Trinity claimed they had unrestricted donations that should offset the questioned costs noted in our audit. We have been working with County Counsel and

DCFS to determine whether agencies like Trinity can use donations to avoid paying back questioned costs. The second issue was a review of an allegation that Trinity had loaned foster care funds to three organizations affiliated with the Agency (Advanced Education Services, Triad Family Services, and ACTS for Children) from FY 2007-08 to 2009-10. Our review of the allegation confirmed that Trinity had loaned approximately $2.3 million in Los Angeles County foster care funds to the affiliated organizations. While $1.6 million of the loans had been repaid as of March 2012, the loaning and commingling of foster care funds indicate that Trinity was not managing foster care funds appropriately. In addition, we question if Trinity has adequately operated its County Programs when large amounts of Program funds were loaned to other affiliated organizations.

To enable Trinity to begin taking corrective action as soon as possible, we discussed the findings and recommendations from our review with Agency management in 2010, 2011 and again in 2012. We also notified DCFS of Trinity's financial viability issues in 2010.

Summary of Findings

Unallowable and Unsupported/Inadequately Supported Costs

We identified $499,722 in unallowable costs, including $315,890 in interest and penalties on loans and credit cards, $91,313 in interest and penalties on delinquent payroll taxes, and $86,752 in non-sufficient fund and bank overdraft charges. We also identified $38,756 in unsupported/inadequately supported costs. Because Trinity did not have a written cost allocation plan, the Agency will need to work with DCFS to develop a cost allocation plan, and determine the amount of questioned costs that should be allocated to the County's Programs. In addition, DCFS and the Agency need to work together to resolve potential overpayments.

After our review, Trinity claimed that they had contributed non-County funds to the FFA and GH Programs which exceeded the questioned costs identified in this report. Trinity indicated that these contributions should offset the questioned costs. While it appears that Trinity Children's Foundation did contribute approximately $272,000 in private unrestricted donations to Trinity, these donated funds also benefited Trinity's other programs. DCFS should work with County Counsel and Trinity to determine how much of the donated funds, if any, benefited the County's FFA and GH Programs, and should be used to offset the questioned costs identified in this report.

Financial Condition

We also noted that Trinity's audited financial statements for FYs ending June 30, 2008 through June 30, 2010 included going-concern qualifications, indicating the Agency may have problems continuing to operate because of substantial operating losses and significant liabilities for delinquent payroll taxes. For the FY ended June 30, 2011, Trinity's financial condition improved. The Agency's audited financial statements as of June 30, 2011 showed $352,626 in net income, and net assets of $1,439,874. However, as of June 30, 2011, Trinity still owed approximately $2.4 million in delinquent federal and State payroll taxes, penalties, and interest. Trinity had also borrowed more than $3.6 million from various banks, and used County foster care funds to pay $315,106 in interest on these loans in FY 2008-09. Paying interest with foster care funds is not allowed, and we have included the $315,106 in interest in the unallowable costs in this report.

Details of our findings are discussed in the attachment to this report.

Review of Report

We notified DCFS of Trinity's financial issues in January 2010, so the Department could monitor to ensure Trinity continued to provide adequate services under its GH and FFA contracts. DCFS placed Trinity on a month-to-month contract in November 2011.

Based on the significant issues identified in our fiscal and allegation reviews, we recommend that DCFS place Trinity in the County's Contractor Alert Reporting Database and reevaluate the need to continue doing business with Trinity. DCFS should also resolve the questioned costs, and collect any disallowed amounts. If DCFS continues to contract with Trinity, DCFS should ensure that Trinity management takes action to address the recommendations in this report, and monitor to ensure that the actions result in permanent changes, and ensure that the Agency's financial issues do not affect the quality of care to County-placed children.

In addition, if DCFS continues to contract with Trinity, the Agency will need to strengthen controls over its accounting and disbursement procedures, vehicle mileage records, cost allocation plan, payroll/personnel records, independent contractors, bank reconciliations, and fixed assets. Also, if Trinity proposes to use current period foster care funds to repay its liabilities, DCFS will need to closely monitor to ensure the funds are used in accordance with Federal Office of Management and Budget Circular A-122.

We shared a copy of our report with Trinity management, who declined an exit conference. We are, therefore, issuing this report before the Agency's appeal period and submission of their Fiscal Corrective Action Plan.

The findings and conclusions in this audit are subject to further review, and possible revision, based on Trinity's pursuit of its regulatory due process rights to challenge the audit findings under applicable law. The Agency will provide their response to DCFS who will prepare a Fiscal Corrective Action Plan and submit it directly to your Board.

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 is being forwarded to DCFS in order that it might take further action as it deems appropriate. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

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

WLW:JLS:RS

Attachment

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, DCFS
Jerry E. Powers, Chief Probation Officer
Reaver E. Bingham, Deputy Chief, Probation Department
John Neiuber, Chief Executive Officer, Trinity Youth Services
Board of Directors, Trinity Youth Services
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
Commission for Children and Families
Children's Deputies
Public Information Office
Audit Committee

Trinity Youth Services
Foster Family Agency and Group Home Foster Care Contract Provider
Fiscal and Allegation Review

REVIEW OF EXPENDITURES/REVENUES

We identified $499,722 in unallowable costs, and $38,756 in unsupported/inadequately supported costs. In addition, our review of an allegation disclosed that Trinity Youth Services (Trinity or Agency) had loaned approximately $2.3 million in LA County foster care funds to three organizations affiliated with the Agency (Advanced Education Services, Triad Family Services, and ACTS for Children) from Fiscal Year (FY) 2007-08 to 2009-10. While $1.6 million of the loans had been repaid as of March 2012, the loaning and commingling of foster care funds indicate that Trinity was not managing foster care funds appropriately. In addition, we question if Trinity has adequately operated its County Programs when large amounts of foster care funds were loaned to other affiliated organizations.

The Department of Children and Family Services (DCFS) and the Agency also need to work together to resolve some potential overpayments. Details of these findings are discussed below.

Applicable Regulations and Guidelines

Trinity is required to operate its Foster Family Agency (FFA) and group homes (GH) in accordance with the following federal, State, and County regulations and guidelines:

- FFA and GH Contracts, including the 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 A-122)
- California Department of Social Services (CDSS) Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

Trinity incurred $499,722 in unallowable expenditures:

- $315,890 in credit card and loan penalty and interest charges.
- $91,313 in Internal Revenue Service (IRS) and California Employment Development Department penalties and interest on delinquent payroll taxes.

- $86,752 in non-sufficient funds (NSF) and bank overdraft fees.

- $5,767 in other unallowable charges, including parking citations, late fees, donations to other organizations, and a Community Care Licensing penalty.

Circular A-122 states that penalties and interest are unallowable costs.

Unsupported/Inadequately Supported Costs

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

We identified $38,756 in FFA/GH expenditures that were either unsupported, or inadequately supported. Specifically:

- $18,376 in payments for two Agency vehicles, one that was used exclusively by Trinity's Chief Executive Officer (CEO), and another that was assigned to the GH Director. Trinity did not maintain mileage logs to document the business or personal use of the vehicles. In addition, the CEO's vehicle, a Lexus LS 430, cost $67,724, which appears excessive and not necessary for the operation of the FFA/GH Programs.

- $13,803 in other unsupported/inadequately supported costs, including agent fees from a bond issued by the California Statewide Communities Development Authority, petty cash expenditures, and a hotel stay in Arizona.

- $6,577 in rent on a property in Texas, and adversiting and other services in Nevada.

As discussed later in the Allocation of Costs section of this report, Trinity did not have a written cost allocation plan. As a result, it is unclear how much of the questioned costs should be allocated to the County's Programs. DCFS should require Trinity to develop a formal cost allocation plan, determine the amount of unallowable and unsupported/inadequately supported costs to recover, and refer questioned amounts allocated to other jurisdictions to the respective agencies for collection.

Based on the significant issues identified in our fiscal review and our review of the allegation regarding loans, we recommend that DCFS place Trinity in the County's Contractor Alert Reporting Database (CARD), and reevaluate the need to continue doing business with Trinity. DCFS should also resolve the questioned costs, and collect any disallowed amounts. If DCFS continues to contract with Trinity, DCFS should ensure that Trinity management takes action to address the recommendations in this report, and monitor to ensure that the actions result in permanent changes.

Recommendations

1. **DCFS place Trinity in CARD, and reevaluate the need to continue doing business with Trinity.**

2. **DCFS management resolve the $538,478 ($499,722 + $38,756) in unallowable and unsupported/inadequately supported expenditures, and collect any disallowed amounts.**

3. **If DCFS continues to contract with Trinity, DCFS ensure that Trinity management takes action to address the recommendations in this report, and monitor to ensure that the actions result in permanent changes.**

Trinity management:

4. **Ensure that foster care funds are used for allowable expenditures.**

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

Potential DCFS Overpayments

DCFS' records show potential overpayments to Trinity. DCFS and the Agency should work together to resolve the overpayments, and DCFS should collect any verified overpayments. Trinity management should also ensure that future payment discrepancies are immediately reported to DCFS, and repay overpayments promptly.

Recommendations

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

7. **Trinity management ensure that future payment discrepancies are immediately reported to DCFS, and repay overpayments promptly.**

TRINITY'S FINANCIAL CONDITION

Trinity's audited financial statements for the FYs ended June 30, 2008, 2009, and 2010 included a going-concern qualification due to significant operating losses and delinquent payroll taxes owed to the federal and State governments. While Trinity's financial condition improved in 2011, as of June 30, 2011, Trinity still owed $2.4 million in delinquent payroll taxes, and accumulated penalties and interest.

Trinity also borrowed a total of $3.6 million from various banks and other lenders. Trinity management indicated the borrowing was needed to meet the Agency's cash flow needs. DCFS should require the Agency to develop a plan demonstrating how it will continue to provide an adequate level of care to placed children while addressing its significant tax and loan liabilities. DCFS must continue to carefully monitor Trinity to ensure that the Agency's financial issues do not affect the quality of care to County-placed children.

As noted earlier, penalties and interest are unallowable costs. If Trinity proposes to use current period foster care funds to repay its liabilities, DCFS will have to ensure the Agency does not use foster care funds to pay penalties and interest on loans or delinquent taxes.

Recommendations

8. **Trinity management develop a plan demonstrating how it will continue to provide an adequate level of care while addressing its significant liabilities.**

DCFS management:

9. **Continue to monitor Trinity to ensure that Trinity's financial issues do not affect the quality of care to County-placed children.**

10. **Ensure Trinity does not use foster care funds to pay penalties and interest on loans or delinquent taxes.**

ALLOCATION OF COSTS

A-C Handbook Section C.2.0 requires agencies to allocate expenditures that benefit multiple programs or funding sources on an equitable basis. During our review period, Trinity operated FFA, GH, and Mental Health programs, and received funding from Los Angeles, San Bernardino, Riverside, Sacramento, Orange, and San Diego counties.

Trinity indicated they have two administrative cost centers for their indirect costs. However, during our review period, Trinity did not have a formal written cost allocation plan, and did not provide supporting documentation showing how they determined the allocation percentages.

Once Trinity develops its cost allocation plan, DCFS should determine how much of the unallowable and unsupported/inadequately supported costs to recover, and refer questioned amounts allocated to other jurisdictions to the respective agencies for collection.

Recommendations

11. **Trinity management prepare a formal cost allocation plan to allocate administrative costs among the Agency's programs, and maintain documentation supporting the allocations.**

12. **Once Trinity develops its cost allocation plan, DCFS determine how much of the unallowable and unsupported/inadequately supported costs to recover, and refer questioned amounts allocated to other jurisdictions for collection.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

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

Accounting and Disbursement Procedures

Trinity owns several vehicles, but did not keep logs to document if/when they are used for Agency business. A-C Handbook Section A.3.2 requires that agencies maintain vehicle mileage logs identifying the dates, destinations, purpose, beginning and ending odometer readings, and the resulting mileage. The logs must clearly identify business and non-business/personal travel. We questioned the cost of two vehicles as part of the Unsupported/Inadequately Supported Costs section of this report.

Recommendation

13. **Trinity management maintain a mileage log for each Agency vehicle, identifying the dates, destinations, purposes, beginning and ending odometer readings, and the resulting mileage.**

Payroll/Personnel Records

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

We reviewed 20 personnel files and payroll records, and noted the following:

- Nine (45%) time cards were either not signed by a supervisor, or the employee signed as both the worker and supervisor.

- One (5%) time card did not show any hours worked. However, the payroll register indicated the employee was paid for 80 hours.

Recommendations

Trinity management:

14. **Ensure time cards are signed by a supervisor to certify the accuracy of the reported time.**

15. **Ensure time cards report the actual hours worked by each employee.**

16. **Resolve the time card discrepancy, and collect any verified salary overpayments.**

Reporting Payments to Contractors

A-C Handbook Section A.2.6 requires contractors to comply with federal and State requirements for filing IRS Form 1099 (Miscellaneous Income). We noted that the amount paid to one independent contractor in the Agency's accounting records did not agree with the 1099. Trinity management should ensure that all payments to independent contractors are reported accurately on the 1099 Forms.

Recommendation

17. **Trinity management ensure that all payments to independent contractors are reported accurately on the 1099 Forms.**

Bank Reconciliations

A-C Handbook Section B.1.4 requires bank reconciliations to 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.

For the general operating account, we noted the following:

- None of the 12 reconciliations were dated. As a result, we could not determine if the reconciliations were prepared within 30 days of the bank statement date.

- Six (50%) of the 12 reconciliations were not signed by the preparer.

- One (8%) of the 12 reconciliations was not signed by the reviewer.

For the payroll account, we noted the following:

- None of the 12 reconciliations were prepared within 30 days of the bank statement date.

- Eleven (92%) of the 12 reconciliations were not signed by the preparer or the reviewer.

Recommendation

18. Trinity management ensure that bank reconciliations are prepared within 30 days from the bank statement date, and are signed and dated by the preparer and reviewer.

Fixed Assets

A-C Handbook Section B.4.2 requires agencies to maintain a current list of fixed assets, including the item description, serial number, purchase date, acquisition cost, and source(s) of funding. In addition, agencies should conduct an inventory of fixed assets at least once a year, and ensure that all fixed assets are accounted for, and maintained in proper working order.

Trinity's fixed asset listing did not identify the source(s) of funding, and the Agency did not inventory its fixed assets on an annual basis as required.

Recommendations

Trinity management:

19. Inventory fixed assets at least once a year to ensure that all fixed assets are accounted for, and maintained in proper working order.

20. Identify the source(s) of funding for each asset on the fixed asset listing.