COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2706
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
ACTING AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
MARIA M. OMS

April 7, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Acting Auditor-Controller

SUBJECT: **FISCAL REVIEW OF B & I GROUP HOME, INC - A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of B&I Group Home, Inc. (B&I or Agency) from January 1, through December 31, 2006. The Probation Department (Probation) and the Department of Children and Family Services (DCFS) contract with B&I to care for foster children placed in the Agency's homes. B&I is licensed to operate two group homes each with a resident capacity of six children. B&I is located in the First Supervisorial District.

DCFS paid B&I $5,234 a month per child, based on a rate determined by the California Department of Social Services. B&I received a total of $690,736 from DCFS in group home foster care funds during 2006.

Scope

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

Summary of Findings

We identified $6,612 in unallowable costs and $17,749 in unsupported/inadequately supported costs. In addition, DCFS and the Agency need to work together to identify and resolve potential overpayments.

More significantly, we noted that since 2003, B&I has not maintained the financial records required by the County contract, such as a double-entry accounting system and a general ledger. In addition, the Agency did not submit a triennial audit of its financial statements for the period ending December 31, 2006 as required, and has not submitted contractually required Semi-Annual Expenditure Reports since 2003.

The Agency needs to ensure that its Board of Directors is independent and that minutes are kept for Board meetings. Finally, B&I needs to strengthen its internal controls over fixed assets, disbursements, personnel and payroll records, independent contractors and bank reconciliations. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the questioned costs and, to the extent possible, collect any overpayments and disallowed amounts. In addition, DCFS needs to ensure that B&I management takes action to address the recommendations in this report and monitor to ensure that the corrective actions result in permanent changes.

B&I's failure to maintain the financial records required by their contract with the County constitutes a breach of contract. DCFS must closely monitor the Agency's progress to correct these deficiencies. If the Agency is unable to correct these deficiencies promptly, DCFS should consider terminating its contract with B&I.

Review of Report

We discussed our report with B&I's management on December 11, 2007. The Agency will provide their response to the report directly to DCFS. DCFS will incorporate the Agency's response into a Fiscal Corrective Action Plan that will be submitted directly to the Board of Supervisors. We thank B&I 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 (626) 293-1101.

WLW:MMO:JLS:MM

Attachment

c: William T Fujioka, Chief Executive Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Susan Kerr, Chief Deputy Director, Department of Children and Family Services
Robert B. Taylor, Chief Probation Officer
Irene Kiuruwi, Executive Director, B&I Group Home, Inc.
Board of Directors, B&I Group Home, Inc.
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, California Department of Social Services
Sheliah Dupuy, Bureau Chief, Foster Care Rates Bureau, California Department of Social Services
Audit Committee
Commission for Children and Families
Public Information Office

B & I Group Home, Inc.
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $6,612 in unallowable costs and $17,749 in unsupported/inadequately supported costs. Details of these costs are discussed below.

Applicable Regulations and Guidelines

B&I is required to operate its group homes in accordance with the following federal, State and County regulations and guidelines:

- Group Homes Contract, including Exhibit C-1, 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 $6,612 in unallowable group home expenditures.

- $5,000 paid to the Executive Director for completing an application to open an additional group home. The Agency was not able to justify how completing this application would benefit the current County-placed children at B&I. In addition, the Agency did not receive written approval from DCFS to expand its program as required under Section 36 of the Circular.
- $1,513 in penalties and interest; $820 in non-sufficient fund check charges, $362 in penalties and interest to the Internal Revenue Service, $316 in credit card finance charges and late fees, and $15 in interest on an insurance policy. Sections 16 and 23 of the Circular state fines, penalties and interest are unallowable expenses.
- $99 paid to a security company for monitoring of a property not used in conjunction with B&I's County contract.

Unsupported/Inadequately Supported Costs

The A-C Handbook 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.

We identified $17,749 in expenditures that were unsupported, or were inadequately supported.

- $12,000 paid to an accountant for bookkeeping services. As discussed in the Financial Records section of this report, B&I has no accounting records or books, so it is unclear what services the accountant has provided.

- $5,542 in unsupported payments; $2,583 in payments to two vendors, $1,801 in employee advances and reimbursements, and $1,158 in credit card purchases at Home Depot, Office Depot, Staples and other vendors. The Agency did not provide documentation for these expenditures.

- $207 for a membership at a resort campground. B&I could not provide documentation establishing how the membership benefited County-placed children.

Recommendations

1. **DCFS management resolve the $24,361 ($6,612 + $17,749) in questioned costs and collect any disallowed amounts.**

B&I management:

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

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

Potential DCFS Overpayments

DCFS records show significant overpayments to the Agency as of March 2007. B&I management indicated that some overpayments related to errors by DCFS or Probation, and that they would be working with DCFS to resolve the discrepancies. DCFS should work with the Agency to resolve this issue and collect any verified overpayments.

Recommendations

4. **DCFS management work with B&I to resolve the overpayments and collect any verified overpayments.**

5. **B&I 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 several contract compliance issues and internal control weaknesses. DCFS should ensure that B&I management takes action to address each of the recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Financial Records

The A-C Handbook Section A.2.0 states that each agency is to maintain a double entry accounting system (utilizing debits and credits), with a general journal, cash receipts journal, general ledger and cash disbursements journal.

B&I has not maintained the required double entry accounting system since 2003. The Agency has only maintained a monthly manual record of earned revenue, and a manual check register, which includes the check number, date, payee, description and the check amount.

In addition, the Agency has not had its financial statements audited or submitted semi-annual expenditure reports since 2003. B&I is required to have an audit performed every three years. California Department of Social Services' Foster Care Rates Bureau (CDSS) staff indicated that B&I's last audit was for the period ended December 31, 2003. In addition, the Agency has not submitted the required Group Home Program Cost Report (SR-3) and Group Home Program Payroll and Fringe Benefit Report (SR-4) since 2003.

B&I should submit a plan to immediately maintain all financial records required by the A-C Handbook and develop post-2003 financial records. In addition, the Agency should work with CDSS to develop a plan to provide delinquent audits of its financial statements and the SR-3 and SR-4 reports. DCFS management should closely monitor the Agency's progress in implementing these plans. Failure to maintain these records constitutes a serious breach of contract. If B&I does not quickly make significant progress to correct these deficiencies, DCFS should consider terminating B&I's contract.

Because the Agency did not have audited financial statements and did not maintain financial records, we could not determine if B&I has any net assets. B&I cannot use current period foster care funds to pay for its 2006 audit, or to reconstruct prior period

financial records. The Agency should submit a plan to DCFS outlining how these tasks will be accomplished without using current period foster care funds.

Recommendations

B&I management:

6. **Submit a plan/timeline to DCFS indicating B&I's efforts in establishing and maintaining all financial records required by the A-C Handbook and developing post-2003 financial records.**

7. **Work with CDSS to develop a plan to provide delinquent audits and SR-3 and SR-4 reports.**

8. **Complete and submit all delinquent semi-annual expenditure reports.**

9. **Submit a plan to DCFS to complete the calendar year 2006 audit and reconstruct its post-2003 financial records without using current period group home funds.**

DCFS management:

10. **Closely monitor B&I's implementation of its plan to develop post-2003 financial records and maintain all required financial records.**

Board of Directors Independence

Section 5227 of the California Corporations Code (Code) states that not more than 49% of the persons serving on the board of any corporation may be "interested persons." "Interested persons" means any person being paid by the corporation for services rendered within the prior twelve months, including employees, independent contractors and relatives.

We noted three of the five members of B&I's Board of Directors (60%) appear to be "interested persons" as defined by the Code. Two members are Agency employees and one member is married to the independent contractor who provides financial advice and bookkeeping services to the Agency. The Agency needs to comply with the California Corporations Code by ensuring that the Board is independent.

Recommendation

11. **B&I management ensure that the Board of Directors is independent in accordance with the California Corporations Code.**

Board Minutes

California Corporations Code 5215 and 6320 requires nonprofit corporations to keep minutes for all board meetings and that the minutes are certified by the secretary of the corporation.

B&I could not provide board minutes for two of the three meetings held in 2006. In addition, the minutes that were provided were not certified by the secretary.

Recommendation

12. **B&I management ensure that minutes are taken at each Board of Directors meeting and that the minutes are certified by the secretary, in accordance with the California Corporations Code.**

Accounting for Fixed Assets

The A-C Handbook section B.4.2 requires that contractors keep a current list of fixed assets, including the item description, serial number, date of purchase, acquisition cost and source of funding. Fixed assets should also be tagged and an inventory of all fixed assets conducted at least once a year, to ensure that all fixed assets are accounted for and maintained in proper working order.

The Agency does not maintain a list of fixed assets, or conduct an annual inventory of its fixed assets.

Recommendation

13. **B&I management maintain a list of all fixed assets and conduct an annual inventory of fixed assets as required by the A-C Handbook.**

Disbursement Procedures

Section B.2.1 of the A-C Handbook requires all supporting documentation for purchases to be marked "paid" or otherwise canceled to prevent reuse, or duplicate payments. We noted 59 of 70 payments reviewed (85%) were not marked “paid”.

Recommendation

14. **B&I management ensure all vendor invoices and receipts are marked “paid”.**

Personnel and Payroll Records

The A-C Handbook section B.3.1 states that timecards and/or time reports must be signed in ink by the employee and employee's supervisor. Section B.3.2 states personnel and payroll records should include the employee's authorized salary rate.

We noted the following:

- None of the personnel files contained the current authorized salary rate. We compared the salaries to The Child Welfare League of America 2005 Salary Study and verified the salaries were reasonable.

- Two of ten timecards we reviewed were not signed by the supervisor.

Recommendations

B&I management:

15. Ensure the authorized pay rate for each employee is kept in the personnel file.

16. Ensure all timecards are signed by the employees' supervisors.

Independent Contractors

Section A.2.6 of the A-C Handbook states that the contractor must comply with all applicable federal and State requirements, including reporting payments to independent contractors on 1099s. B&I did not have 1099s for three of five independent contractors.

Recommendation

17. B&I management ensure payments to independent contractors are consistently reported to the federal and State taxing agencies.

Bank Reconciliations

Section B.1.4 of the A-C Handbook states that monthly bank reconciliations should be prepared within 30 days of the bank statement date and be reviewed by management. The Agency did not complete bank reconciliations for our review period.

Recommendation

18. B&I management ensure bank reconciliations are prepared as required by the A-C Handbook.