COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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January 31, 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 EXCEL FAMILY INTERVENTION, 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 Excel Family Intervention, Incorporated (Excel or Agency) from January 1, 2008 through December 31, 2008. DCFS contracts with Excel to serve as a Foster Family Agency (FFA) to recruit, certify, train and support foster family homes. Excel is located in the Second Supervisorial District.

At the time of our review, Excel had 58 children placed by Los Angeles County in 19 certified foster homes. DCFS paid Excel between $1,589 and $1,865 per month for each foster child, for a total of $492,072. Excel paid $196,702 (40%) 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 repayment of questioned costs from fiscal audits. To enable Excel to begin taking corrective action immediately, we discussed the findings and recommendations from our review with Agency management and DCFS on March 11, 2010.

Summary of Findings

The findings noted in this report are significant and indicate that Excel has difficulty meeting its financial obligations. We identified $2,692 in unallowable costs and $66,111 in unsupported/inadequately supported costs. While the Agency has agreed to reimburse the County for these questioned costs, we have other significant audit findings that should be addressed by the Agency and DCFS immediately.

We noted that Excel's 2008 financial records were incomplete and inaccurate. Specifically, 54% of the expenditures we reviewed were not recorded in the Agency's general ledger. In addition, Excel's 2007 and 2008 financial records have not been audited by a Certified Public Accountant as required by section 19 of the FFA Contract. The Agency's last independent financial audit in 2006 indicated that Excel had negative net assets of $129,336 and a net loss of $122,940.

In addition, Excel owes approximately $250,392 in delinquent federal and State payroll taxes. Further, we noted that the Agency no longer receives funding for its Mental Health programs, or funding from First 5 LA for parenting and pre-school learning activities. In addition, Excel receives minimal funding from the Family Preservation and the Adoptions programs. With reduced funding and a significant tax liability, the Agency may have difficulty meeting its ongoing financial obligations.

Finally, Excel needs to strengthen its internal controls over its accounting and disbursements, bank reconciliations, bank deposits, personnel/payroll records, preparing and submitting Semi-Annual Expenditure Reports to DCFS. Details of our findings are discussed in the attached report.

Excel needs to provide DCFS with a corrective action plan demonstrating how it will pay the tax liabilities without using current period foster care funds. Excel also needs to demonstrate how it will continue to provide an adequate level of care for County foster children while addressing its continuing operating losses. DCFS must closely monitor Excel to ensure that services are maintained at an acceptable level and that Excel's corrective actions result in permanent changes. If the Agency is unable to provide an acceptable corrective action plan and correct these deficiencies promptly, DCFS should consider terminating its contract with Excel.

Review of Report

We discussed our findings with Excel's management and DCFS on March 11, 2010, but were unable to issue our final report to your Board due to changes in federal and State regulations. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II), indicates the Agency's general agreement with our findings and recommendations. The Agency has also agreed to repay the unallowable and unsupported/inadequately supported costs of $68,803 and has signed a repayment

agreement with the County's Treasurer and Tax Collector. We thank Excel'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 the County Department of Children and Family Services in managing its contractual relationships. Consequently, this report will be forwarded to the County Department of Children and Family Services 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:MO:JLS:MWM

c: William T Fujioka, Chief Executive Officer
Antonia Jiménez, Acting Director, DCFS
Lillian Tennell, Executive Director, Excel Family Intervention, Inc.
Board of Directors, Excel Family Intervention, Inc.
Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept. of Social Services
Public Information Office
Audit Committee
Commission for Children and Families

Excel Family Intervention, Incorporated
Fiscal Review

REVIEW OF EXPENDITURES

We identified $2,692 in unallowable costs and $66,111 in unsupported/inadequately supported costs. Details of these costs are discussed below.

Applicable Regulations and Guidelines

Excel 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 A-122), 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 $2,692 in unallowable expenditures, consisting of $1,565 in interest and late fees from Wells Fargo and American Express Credit Cards and $1,127 in non-sufficient funds and overdraft fees charged by Wells Fargo Bank. Circular A-122 Sections 16 and 23 state that penalties and interest are unallowable costs.

Unsupported/Inadequately Supported Expenditures

A-C Handbook Section A.3.2 requires that all expenditures be supported by original vouchers, invoices, receipts, cancelled checks or other documentation and that unsupported expenditures will be disallowed upon audit. We identified $66,111 in expenditures that were either not supported or were not adequately supported.

- $57,224 in inadequately supported payments to Ford credit, AT&T, employee reimbursements, and professional fees. The Agency provided cancelled checks and bank statements, but no receipts, or the receipts provided were inadequate to establish that the expenses were program related.
- $8,887 in American Express credit card charges for which the Agency did not provide any supporting documentation.

As discussed in the "Allocation of Costs" section of this report, Excel does not have a documented plan to allocate 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 Excel develops a documented cost allocation plan, DCFS will need to determine the amount of unallowable and unsupported/inadequately supported costs that should be recovered.

Recommendations

1. **DCFS management resolve $68,803 ($2,692 + $66,111) in questioned costs and collect any disallowed amounts.**

Excel management:

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

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

2008 FINANCIAL RECORDS

For calendar year 2008, the Agency's unaudited financial records appear to be inaccurate. While reviewing the general ledger, we noted several expenditure categories such as Building Lease Expense, Office Supplies, Automobile Expense, Bank Charges, and Licenses and Permits with zero balances. However, after reviewing some of the invoices and receipts included in our sample, we determined that these expenses should have been recorded in the accounts that had zero balances. We also noted that the last General Insurance Expense payment was made on July 10, 2008 (payment for only half the year) and the only telephone expenses in the general ledger were for the months of February, April and October 2008. In addition, we noted many expense amounts identified on the bank statements, such as payments to Ford Credit and AT&T, were not recorded in the Agency's books. Of the 81 expenditure items sampled, 44 (54%) were not recorded in the general ledger.

Recommendations

Excel management:

4. **Submit a plan to DCFS to develop and maintain complete financial records and develop any required financial records that were not maintained in prior years.**

5. **Ensure all expenditures are recorded in the general ledger and have the 2008 and 2007 financial records audited by an independent CPA firm.**

6. **DCFS management closely monitor Excel's implementation of its plan to develop and maintain financial records.**

FINANCIAL VIABILITY

Excel's audited financial statements for fiscal year 2006 show a net loss of $122,940 and negative net assets of $129,336. The 2007 and 2008 statements have not yet been audited so we are unable to assess the Agency's current operating income/loss. However, we noted that the Agency owes $250,392 in delinquent federal and State payroll taxes, interest and penalties as discussed below. In addition, we noted that the Agency no longer receives funding for the Mental Health and the First 5 LA programs, and minimal funding from the Family Preservation and the Adoptions programs. With reduced funding and a significant tax liability, it appears the Agency may have a going concern issue.

DCFS needs to require the Agency to develop a plan on how it will continue to provide an adequate level of care while addressing its financial viability. Given the Agency's tenuous financial position, DCFS must monitor Excel carefully to ensure that service quality is maintained at an acceptable level.

Recommendations

7. **Excel management develop a plan demonstrating how it will provide an adequate level of care while addressing its ongoing operating losses.**

8. **DCFS management carefully monitor Excel to ensure that adequate service quality is maintained.**

PAYROLL TAX LIABILITY

Internal Revenue Service documents show that Excel owes approximately $195,091 in delinquent payroll taxes, penalties and interest from March 31, 2007 through June 30, 2008. The Agency also owes $55,300 to the State in delinquent payroll taxes from October 2006 through December 2008. Circular A-122 Sections 16 and 23 state that penalties and interest are unallowable costs. DCFS needs to ensure that Excel does not use foster care funds to pay the penalties and interest. In addition, since the delinquent payroll taxes originated in a previous contract year, Excel may not use current period foster care funds to pay this liability.

Because Excel had an operating loss in 2006 and without more recent audited financial statements, it is unclear how the Agency will be able to pay its delinquent tax liabilities. Excel management should submit a plan to DCFS showing how the Agency will repay its payroll tax liability without using current period foster care funds.

Recommendations

9. **DCFS management ensure that foster care funds are not used to pay penalties and interest.**

10. **Excel management submit a plan to DCFS showing how the Agency will pay its payroll tax liabilities without using current period 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, Excel operated Mental Health, Family Preservation, First 5 LA Programs, in addition to its FFA program.

The Agency does not allocate its administrative costs among its programs. Excel should develop a plan to allocate expenses to each program on an equitable basis.

Recommendation

11. **Excel management develop a plan to allocate expenses to each program on an equitable basis.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several areas where Excel needs to improve its internal control and contract compliance. DCFS should ensure that Excel management takes action to address each of the internal control and contract compliance recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Accounting and Disbursement Procedures

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

- 44 (54%) of 81 expenditure items we reviewed were not posted in the general ledger. A-C Handbook Section A.2.4 states that a general ledger shall be maintained with accounts for all assets, liabilities, fund balances, expenditures, and revenues.

- Excel does not have a fixed assets listing as required by A-C Handbook Section B.4.2.

- Excel issued 3 checks, totaling $1,075, payable to cash. A-C Handbook Section B.2.0 states that checks shall not be made payable to cash.

Recommendations

Excel management:

12. **Properly post and classify expenditures on the general ledger in a consistent manner.**

13. **Keep a list of fixed assets as required by A-C Handbook Section B.4.2.**

14. **Ensure checks are not made payable to cash.**

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 be signed by the employee and supervisor to certify the accuracy of the reported time.

We sampled the personnel files and payroll records of 9 employees and noted:

- Two employee timecards were not signed by the employee.
- Five employee timecards were not signed by the supervisor.
- Eight employee personnel files did not contain the employee's current salary rate.

Recommendations

Excel management:

15. **Ensure the timecards are signed by the employee and supervisor to certify the accuracy of the reported time.**

16. **Ensure personnel files contain current salary rates approved by management.**

Semi-Annual Expenditure Reports

FFA Contract Section 9 requires Excel to submit Semi-Annual Expenditure Reports of its revenue and expense for Los Angeles County foster children to DCFS. Excel has not submitted a Semi-Annual Expenditure Report to DCFS since 2006.

Recommendation

17. Excel management prepare and submit all Semi-Annual Expenditure Reports for the 2007 and 2008 years.

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 and noted that no bank reconciliations for the general operating account were prepared.

Recommendation

18. Excel management prepare monthly bank reconciliations within 30 days of the bank statement date and ensure that the reconciliations are signed and dated by both the preparer and reviewer.

County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
425 Shatto Place, Los Angeles, California 90020
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PATRICIA S. PLOEHN, LCSW
Director

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MICHAEL D. ANTONOVICH
Fifth District

June 24, 2010

Lillian Tennell, Executive Director
Excel Family Intervention, Incorporated
P.O. Box 56617
Los Angeles, CA 90056

Dear Ms. Tennell:

AUDITOR-CONTROLLER'S FISCAL AUDIT REPORT ON EXCEL FAMILY INTERVENTION, INCORPORATED - A FOSTER FAMILY AGENCY CONTRACTOR

We have reviewed your fiscal corrective action plan (FCAP) in response to the Auditor Controller's fiscal audit report dated April 28, 2010. The FCAP fully addresses 18 recommendations (see Attachment I). In addition, the four recommendations directed to Department of Children and Family Services (DCFS) were fully addressed.

$2,692 in unallowable costs is non-negotiable and must be repaid to DCFS. **Therefore, the $2,692 remains disallowed and must be repaid by Excel Family Intervention, Incorporated.**

$66,111 in inadequately supported costs. The Agency did not provide sufficient supporting documents. As a result, we could not determine if these expenses benefited the foster family program. DCFS is unable to allow this amount. **Therefore, the $66,111 remains disallowed and must be repaid.**

The Auditor-Controller (A-C) Handbook states that all revenues and expenditures shall be supported by original vouchers, invoices, receipts, timecards, travel logs, contract and loan agreements and/or other documentation and the unsupported expenditures shall be disallowed upon audit.

Please contact the Los Angeles County Treasurer and Tax Collector Department; by July 1, 2010 to schedule a date and time to sign a repayment agreement for the amount of $68,803 ($2,692 + 66,111).

Kathy Gloster, Operations Chief
Los Angeles County Treasurer and Tax Collector Revenue and Enforcement
225 N. Hill Street Room 122
Los Angeles, CA 90012
(213) 893-7968
kgloster@ttc.lacounty.gov

The Department requires that you identify the source of the funds from which payment will be made.

With regard to the overpayments, please contact Luis Castaneda, Supervisor, Overpayment Unit, at (213) 351-3212 to reconcile any overpayments on record. DCFS records as of June 24, 2010 reflect a $13,236 overpayment balance for this agency. DCFS requires that this amount must be repaid

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

Sincerely,

Barbara Abrams

Barbara Abrams, Interim ASM III
Fiscal Monitoring and Special Payments

Attachments

c: Mike McWatters, Chief Audit Division
Russell Lingo, Principal Accountant-Audito
Kathy Gloster, Operations Chief

ATTACHMENT I

FISCAL REVIEW OF
EXCEL FAMILY INTERVENTION, INC.
A FOSTER FAMILY AGENCY FOSTER CARE CONTRACTOR

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 FCAP dated 4/28/2010, submitted by Excel Family Intervention, Incorporated, the status of each recommendation is summarized as follows:

- 18 Recommendations (1-18) were fully addressed.
- 4 Recommendations (1, 6, 8 & 9) directed to the Department were addressed.

Recommendation Status

1. **DCFS management resolves $68,803 ($2,692 + $66,111) in questioned costs and collect any disallowed amounts.**

   Agency Proposed FCAP: Excel Family has committed itself in repayment of the amount stated to be repaid to DCFS.

   DCFS Response: DCFS accepts the agency's response. Please contact the Los Angeles County Treasurer and Tax Collector Department, as soon as possible to schedule a time to sign a repayment agreement for the amount of $68,803. Please contact

   Kathy Gloster
   Operations Chief
   Los Angeles County Treasurer and Tax Collector Revenue and Enforcement
   225 N. Hill Street Room 122
   Los Angeles, CA 90012
   (213) 893-7968
   kgloster@ttc.lacounty.gov

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

   Agency Proposed FCAP: Excel will ensure that foster care funds are used for allowable expenditures to carry the purpose and activities of the program.

DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

3. **Excel management maintain adequate supporting documentation for all expenditures, including original itemized invoices and receipts.**

   Agency Proposed FCAP: We have been collecting supporting documentation for all expenditures for all payments made and filing accordingly.

   DCFS Response: Please submit Board-approved policies/procedures regarding the Agency's document maintenance system to ensure compliance with the recommendations.

4. **Excel management submit a plan to DCFS to develop and maintain complete financial records and develop any required financial records that were not maintained in prior years.**

   Agency Proposed FCAP: Excel management plans maintain and develop financial records to DCFS in accordance with the recommendation provided by DCFS within a period of 2 months. The plan to is implementation with the hiring of the new bookkeeper and accountant to maintain complete financial records.

   DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

5. **Excel management ensures all expenditures are recorded in to the general ledger and have the 2008 and 2007 financial records audited by an independent CPA firm.**

   Agency Proposed FCAP: All financial data has been posted to our general ledger and will have the 2008 financial audit done very soon. The 2007 audited report was completed by independent CPA firm and have been submitted to your office for your records.

   DCFS Response: Please submit copies of the Semi-Annual Expenditure Report for 2008 and the General Ledger for the same period.

6. **DCFS management closely monitors Excel's implementation of its plan to develop and maintain financial records.**

   Agency Proposed FCAP: We concurred with your recommendation that DCFS shall monitor Excel on a regular basis.

DCFS Response: DCFS plans to monitor Excel on a regular basis to ensure compliance with the recommendation.

7. **Excel management develop a plan demonstrating how it will provide an adequate level of care while addressing its ongoing operating losses.**

   Agency Proposed FCAP: Excel's management plan to demonstrating an adequate level of care for our children and families has been in compliance with our contract. Excel Family has always provided the highest level of care to and training to foster parents and foster children.

   DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

8. **DCFS management carefully monitors Excel to ensure that adequate service quality is maintained.**

   Agency Proposed FCAP: We have already addressed the ongoing operating losses by reducing our personnel and maintain the same quality of services in our program. We concurred with your recommendation that DCFS shall monitor Excel on a regular basis to ensure that all rules and regulation are being enforced to the highest degree.

   DCFS Response: DCFS plans to monitor Excel on a regular basis to ensure compliance with the recommendation.

9. **DCFS management ensures that foster care funds are not used to pay penalties and interest.**

   Agency Proposed FCAP: Excel is not using foster care funds to pay for penalties and interest.

   DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

10. **Excel management submits a plan to DCFS showing how the Agency will pay its payroll tax liabilities without using current period funds.**

    Agency Proposed FCAP: We are negotiating with the IRS and the EDD to give us a plan to pay at a later date. We will fundraise and will solicit funds from the public sector, which we have done before.

    DCFS Response: Please submit copies of any agreements and/or repayment plans between the agency and IRS, EDD.

11. **Excel management develops a plan to allocate expenses to each program on an equitable basis.**

Agency Proposed FCAP: Excel has already implemented a plan to allocate revenue and expenses by program.

DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

12. **Excel management properly post and classify expenditures on the general ledger in a consistent manner.**

    Agency Proposed FCAP: The new bookkeeper is already posting the expenditures in our General Ledger by each program or classification.

    DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

13. **Excel management keeps a list of fixed assets as required by A-C Handbook Section B.4.2.**

    Agency Proposed FCAP: A list of fixed assets will be developed to maintain an inventory of all assets that Excel has purchased.

    DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation. Please submit copy of updated fixed assets list.

14. **Excel management ensure checks are not made payable to cash.**

    Agency Proposed FCAP: Checks will not be payable to cash. All invoices and employees reimbursements will be done by check.

    DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

15. **Excel management ensures the timecards are signed by the employee and supervisor to certify the accuracy of the reported time.**

    Agency Proposed FCAP: Timecards are now signed by the employee and supervisor. We have implemented the personnel files in accordance to labor laws.

    DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

16. **Excel management ensure personnel files contain current salary rates approved by management.**

Agency Proposed FCAP: Management will ensure that all personnel file will contain current salary rates and is approved by management.

DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

17. **Excel management prepare and submit all Semi-Annual Expenditure Reports for the 2007 and 2008 years.**

Agency Proposed FCAP: Excel management will prepare and submit all semi-annual expenditures reports to DCFS on time. Reports will reflect for 2008 since 2007 has been submitted to DCFS.

DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation. Please submit copies of 2007-2008 Semi-Annual reports to DCFS.

18. **Excel management prepare monthly bank reconciliations within 30 days of the bank statement date, and ensures that the reconciliations are signed and dated by both the preparer and reviewer.**

Agency Proposed FCAP: With the new accounting personnel bank reconciliations will be prepared 30 days of the bank statement date, and ensures that the reconciliations are signed and dated by the preparer and the reviewer.

DCFS Response: Please submit Board-approved policies/procedures that ensure compliance with the recommendation. Please submit copies last two months bank reconciliations.

AG: ag