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

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JUDI E. THOMAS

May 17, 2011

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

FROM: Wendy L. Watanabe Wendy L. Watanabe
Auditor-Controller

SUBJECT: **MACRO HOMES, INCORPORATED – A GROUP HOME FOSTER CARE CONTRACTOR – FISCAL REVIEW**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Macro Homes, Incorporated, (Macro or Agency) from January 1 to December 31, 2009. Macro is licensed to operate one group home (GH) with a resident capacity of six children. Macro is located in the Fifth Supervisorial District.

DCFS and the Probation Department contract with Macro to care for foster children placed in the Agency's home. DCFS paid Macro $4,221 per child per month, based on a rate determined by the California Department of Social Services, for a total of $309,339 in 2009.

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 Macro to begin taking corrective action as soon as possible, we discussed the findings and recommendations from our review with Agency management on October 7, 2010.

Summary of Findings

We identified $3,503 in unallowable expenditures and $3,474 in unsupported/ inadequately supported expenditures.

Macro also needs to strengthen its internal controls over accounting and disbursement procedures, payroll and personnel records, fixed assets, and submit the Semi-Annual Expenditure Report for the period of July 1 to December 31, 2009 to DCFS. 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 Macro'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 Macro's management and DCFS on January 18, 2011. 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.

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 Macro 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
Jackie Contreras, Ph.D., Interim Director, DCFS
Donald H. Blevins, Chief Probation Officer
Kathleen Kerrigan, Executive Director, Macro Homes, Incorporated
Board of Directors, Macro Homes, Incorporated
Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept. of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Macro Homes, Incorporated
Fiscal Review

REVIEW OF EXPENDITURES

We identified $3,503 in unallowable expenditures, and $3,474 in unsupported/inadequately supported expenditures. Details of these expenditures are discussed below.

Applicable Regulations and Guidelines

Macro is required to operate its group home (GH) in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, 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 Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Expenditures

We identified $3,503 in unallowable expenditures that were charged to the GH program:

- $426 in penalties and interest; $300 in civil penalties charged by the California Department of Social Services, $91 in penalties and interest charged by the California Employment Development Department and Alliance Member Insurance, and $35 in late fees charged by American Express. Circular A-122 Sections 16 and 23 indicate that penalties and interest expenses are unallowable expenditures.
- $3,077 in excess lease payments for an Agency property where the lease payments exceeded 12% of the property's fair market value (FMV). CDSS MPP 11-402.828 states that shelter costs shall not exceed 12% of the FMV of owned, leased, or rented buildings used for GH programs and activities.

Unsupported/Inadequately Supported Expenditures

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

We identified $3,474 in unsupported and inadequately supported expenditures involving bank withdrawals, payments to American Express for credit card charges, home maintenance expenses, telephone charges and petty cash expenditures. The Agency provided cancelled checks and credit card statements, but no receipts, or the receipts provided did not substantiate that the expenditures were GH-related.

Recommendations

1. **DCFS management resolve the $6,977 ($3,503 + $3,474) in questioned costs and collect any disallowed amounts.**

Macro management:

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

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

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that Macro management takes action to address the 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:

- Five checks, totaling $2,084, were payable to "cash". A-C Handbook Section B.2.1 states that checks should not be made payable to "cash".

- Four (9%) of 47 expenditures reviewed were not properly classified in the general ledger. For example, one item was classified as postage expense in the general ledger, when the receipt indicated that it was for a live scan criminal background check on an Agency employee. A-C Handbook Section A.2.5 indicates that an agency must post transactions of a similar nature to the same account.

Recommendations

Macro management:

4. **Ensure checks are not made payable to "cash".**

5. **Properly classify expenditures on the general ledger on a consistent basis.**

Payroll / Personnel Controls

CDSS-MPP Section 11-402 requires supporting documentation to be maintained for all program expenditures, including 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 or time reports must be signed by the employee and supervisor to certify the accuracy of the reported time.

We reviewed 13 employee personnel files and payroll records and noted the following:

- Eight (62%) employee personnel files did not contain the employees' current authorized salary rates. However, we determined the employees' salary rates were reasonable based on the Child Welfare League of America (CWLA) Salary Study.
- One employee timecard was not available for our review.
- One employee timecard was not signed by the employee.

Recommendations

Macro management:

6. **Ensure personnel files contain current salary rates approved by management.**
7. **Ensure timecards are prepared for each employee covering each pay period.**
8. **Ensure timecards are signed by the employee.**

Fixed Assets

A-C Handbook Section B.4.2 requires agencies to have a current listing of fixed assets, including a detailed item description, serial number, date of purchase, acquisition cost and source of funds. In addition, an annual inventory of all fixed assets should be conducted to ensure that fixed assets are accounted for and maintained in proper working order.

In response to our request for its fixed asset listing, Macro provided what appeared to be a depreciation schedule. Some of the assets were identified in general categories such as "Equipment", "Vehicles", and "Furniture/Fixtures and Appliances", but no details were provided for the specific assets, such as the Agency's 2006 Toyota Sienna, 2000

Saturn Station wagon and various computers. In addition, the Agency does not conduct an annual inventory of fixed assets.

Recommendation

9. **Macro management prepare a fixed asset listing that includes detailed item description, serial number, date of purchase, acquisition cost and source of funds for each asset, and conduct an annual inventory of all fixed assets to ensure they are accounted for and maintained in proper working order.**

Semi-Annual Expenditure Report

GH Contract Section 16.4 requires agencies to prepare and submit Semi-Annual Expenditure Reports to DCFS within 60 days after the end of each semi-annual reporting period. The Agency has not submitted the Semi-Annual Expenditure Reports for the period of July 1 through December 31, 2009.

Recommendation

10. **Macro management submit the Semi-Annual Expenditure Report for the period of July 1 through December 31, 2009 to DCFS.**

Attachment II

County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

425 Shatto Place, Los Angeles, California 90020
(213) 351-5602

ANTONIA JIMÉNEZ
Acting Director

Board of Supervisors
GLORIA MOLINA
First District
MARK RIDLEY-THOMAS
Second District
ZEV YAROSLAVSKY
Third District
DON KNABE
Fourth District
MICHAEL D. ANTONOVICH
Fifth District

March 24, 2011

Kathleen Kerrigan, Executive Director
Macro Homes, Incorporated
1403 Kerrick Street
Lancaster, CA 93534

Dear Ms. Kerrigan:

AUDITOR-CONTROLLER'S FISCAL AUDIT REPORT ON MACRO HOMES, INCORPORATED – A GROUP HOME FOSTER CARE CONTRACTOR

We have reviewed your 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 10 recommendations (see Attachment III). In addition, the one recommendation directed to DCFS was fully addressed.

DCFS received Check #6404 in the amount of $6,977 for the questioned costs identified in the above mentioned Auditor Controller's fiscal audit report. The Department requires that payment be drawn on non-foster care funds and that Macro Homes identify the source of the funds which the check was made from.

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 III

FISCAL REVIEW OF
MACRO HOMES, INCORPORATED - A GROUP HOME
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 March 24, 2011, submitted by Macro Homes, Incorporated, status of each recommendation is summarized as follows:

- 10 Recommendations (1-10) were fully addressed.
- __ Recommendations (____) were partially addressed.
- 1 Recommendation (1) directed to the Department was addressed.

Recommendation Status

1. **DCFS management resolves $6,977 ($3,503 + $3,474) in questioned costs and collect any disallowed amounts.**

   Agency Proposed FCAP: *Macro Homes submitted to DCFS Cashier, 425 Shatto Place, Los Angeles, CA 90020 Check #6404 for $6,977 on 3/18/11 for disallowed costs.*

   DCFS Response: DCFS accepts the agency's response. The Department requires that payment be drawn on non-foster care funds and that Macro Homes identify the source of the funds which the check was made from.

2. **Macro's management ensures that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.**

   Agency Proposed FCAP: *Macro Homes revised Internal Controls of Policies & Procedures Manual, Part III E 32.doc. A copy of written Board-approved Policies and Procedures are attached to ensure compliance with the recommendation. Please refer to* ***DISBURSEMENTS***.

   DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

3. **Macro's management consistently maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts and invoices.**

   Agency Proposed FCAP: *Macro Homes revised Internal Controls of Policies & Procedures Manual, Part III E 32.doc. A copy of written Board-approved Policies and Procedures are attached to ensure compliance with the recommendation. Please refer to* ***RECEIPTS*** .

   DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

4. **Macro's management ensures checks are not made payable to "Cash".**

   Agency Proposed FCAP: *Macro Homes revised Internal Controls of Policies & Procedures Manual, Part III E 32.doc. A copy of written Board-approved Policies and Procedures are attached to ensure compliance with the recommendation. Please refer to* ***DISBURSEMENTS, #3.***

   DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

5. **Macro's management properly classifies expenditures on the general ledger on a consistent basis.**

   Agency Proposed FCAP: *Macro Homes revised Internal Controls of Policies & Procedures Manual, Part III E 32.doc. A copy of written Board-approved Policies and Procedures are attached to ensure compliance with the recommendation. Please refer to* ***DISBURSEMENTS, #6***.

   DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

6. **Macro's management ensures personnel files contain current salary rates approved by management.**

   Agency Proposed FCAP: *Macro Homes revised Internal Controls of Policies & Procedures Manual, Part III E 32.doc. A copy of written Board-approved Policies and Procedures are attached to ensure compliance with the recommendation. Please refer to* ***DISBURSEMENTS, #7***.

   DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

7. **Macro's management ensures timecards are prepared for each employee covering each pay period.**

Agency Proposed FCAP: *Macro Homes revised Internal Controls of Policies & Procedures Manual, Part III E 32.doc. A copy of written Board-approved Policies and Procedures are attached to ensure compliance with the recommendation. Please refer to* ***DISBURSEMENTS, #8.***

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

8. **Macro's management ensures timecards are signed by the employee.**

Agency Proposed FCAP: *Macro Homes will use new time cards for each pay period instead of for the month. If time cards are not signed they will not be processed until they are signed.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

9. **Macro's management prepare a fixed asset listing that includes detailed item description, serial number, date of purchase, and acquisition costs each asset, and conduct an annual inventory of all fixed assets to ensure they are accounted for and maintained in proper working order at least annually.**

Agency Proposed FCAP: *Macro Homes' Administrator will work with IBS to conduct annual inventory for 2010 and each year thereafter.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

10. **Macro's management submit to DCFS the Semi-Annual Expenditure Report for the period of July 1 through December 31, 2009.**

Agency Proposed FCAP: Macro Homes resubmitted Semi-*Annual Expenditure Report for the period of July 1-December 31, 2009, on January 31, 2011 to DCFS Fiscal Monitory & Special Payments, Administrative Services Manager III, 425 Shatto Place, Room 304, Los Angeles, CA 90020.*

DCFS Response: DCFS accepts the agency's response.

INTERNAL CONTROLS

A FACILITY LOG is kept daily by childcare workers on the staff computer. Staff records the general atmosphere of the home, group activities for the day (who attended & who didn't & why), SIR's, and any other pertinent information in the Staff Notes Sect

INDIVIDUAL NOTES are kept daily by each shift on the staff computer. Behaviors are reported objectively and any pertinent information (school, nutritional, recreational matters, SIR's, etc.) is noted. The Administrative Assistant backs-up files weekly.

RESIDENT'S POINT LOG each resident has an own section divider that holds weekly point sheets. Points are given and initialed by staff. Staff may give explanations for points on the back of the sheet. Any WRAP Case Plans are kept in this section. Emancipation Services sheet is kept in each individual section. In addition, each new SIR and NSP is added for staff review and is to be initialed after it was read. The Administrative Assistant maintains these documents and is responsible for placing new documents and filing old documents in the resident's book.

VISITOR'S & RESIDENT'S IN-and-OUT LOG is where all residents record time in & out of facility, and all visits by social workers, family, and friends are noted. The Log is kept on a clipboard on the resident's computer desk in the living room... If the visit is for the first time then staff is required to record identifying information such as driver's license number, address, phone number, and relation to the child in the notes. Picture ID's will be copied and placed in the Resident's Notebook. Administrative Assistant maintains Log and enters all visits on the NSP.

NEEDS & SERVICE PLAN (NSP), living document, is established by the Administrative Assistant on the day of admission of each resident by in-putting all pertinent data on standardized computer form – "Provider's Needs and Services Plan/Quarterly Report (Rev 4/09). The Administrative Assistant is responsible for auditing the NSP's weekly and gathering & in-putting data concerning the individual's DCFS 709, Health & Education Passport (HEP), individual SIR's and visits, emailing Initial and Quarterly Reports to respective facility workers on due dates, copying completed reports & establishing next NSP, sending copies of NSP to CSWs, POs, attorneys, etc, and obtaining CSW's signature.

All of the above communications are reviewed by the social worker, administrator, and childcare workers to gain information on residents on a daily basis. The facility managers review these logs daily and report any significant matters directly to the administrator and social workers. The social worker reviews the child's logs quarterly and summarizes information into the Quarterly Reports. The administrator reviews SIR's within 7 days and logs any manual restraints for the 6 month review. The logs are used to record factual information without reflecting opinions. Information includes "who, what, where, when, and why" when possible. Each entry is signed by staff using their first and last name and position. The log is a legal document for the facility.

DAYS OF CARE LOG is maintained by the Administrative Assistant. The admistrative assistant will email a Vacancy Report every Wednesday by 3PM to Out of Home Care Management Division, Emergency Shelter Care Program, 9320 Telstar Avenue, Suite 216, El Monte, CA 91731, 626-569-6873, Fax 626-572-2367, c/o The Administrative Assistant will email Days of Care Log to the Administrator on the last day of the month. This report is used by the administrator to send in Vouchers to Department of Children and Family Services, Vendor Voucher Validation Unit, PO Box 368, Glendora, CA 91740-0368. The administrator emails the "Group Home Utilization Report" to DCFS, c/o Jennifer Tang at tangja@dcfs.lacounty.gov or fax at (626) 572-2368 or (626) 572-2367.

RECEIPTS – Macro Homes' management consistently maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts and invoices.

1. Mail is sent to 1403 Kerrick Street, Lancaster, CA 93534, and received by the administrator. Outgoing mail is taken to a postal box by the administrator or her assistant.
2. Any incoming mail identified as a check is opened and copied by the administrative assistant. One copy is placed in the IBS folder and the other is in monthly receipts folder.
3. Los Angeles County uses direct deposit into Macro Homes Wells Fargo Checking Account.

4. Copies of all checks and monthly bank statements are sent to *independent Business Solutions (IBS), 5767 Uplander Way, Suite 206, Culver City, CA 90230, 310.641.4996, Fax 310.988-1553. CPA is Ivan Colon's cell 310.490.0130.*
5. Macro Homes' management properly classifies expenditures on a consistent basis and oversees that IBS enters the data properly on the general ledger by reviewing the monthly reports.

DISBURSEMENTS – Macro Homes' management ensures that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency:

1. All invoices are given to the Administrator. All purchases are approved by the Administrator. The Administrator presents large purchases to the Board of Directors for approval.
2. The Administer writes all checks for accounts payable. The Assistant Administer may write checks for the Administrator in her absence.
3. Checks for Petty Cash will be made out to an employee responsible for properly maintaining the Petty Cash Fund. Checks may not be made out to "Cash" and original copies of receipts must account for all Petty Cash disbursements.
4. Every business credit card transaction must have a proper original receipt and any food purchased with a credit card must have the receipt plus an itemized receipt. Alcohol is not accepted expense.
5. Any contracted services must have an original invoice with the name, address, and phone number of the provider.
6. Cancelled checks are accessed on-line by the Administrator, copied, and checked on the check ledger. Copies and voided checks are sent to IBS for accounting. Outstanding checks are written on the back on the Wells Fargo Bank Statement and individual payroll stubs are sent for each month by the 15th of the following month to IBS.
7. Macro Homes' management ensures personnel files contain current salary rates approved by management by using "MACRO HOMES Employee Worksheet" (Paypoint.xls.) for initial salary rates and any changes.

8. Payroll is done through Wells Fargo Business Payroll Services, 1250 Montego Way, 2nd Floor, Walnut Creek, CA 94598, 866.933.9773, Fax 866.850.3914, Account Manager Elaina Gonzales extension 25183. Payroll may be faxed in 2 business days prior to pay date.
9. Resident Weekly Allowance: Each resident earns $7 per week as per DCFS Contract or $1 per day of placement. This amount is recorded on Lic 405 Record of Client's/Resident's Safeguarded Cash Resources. Residents are able to sign out their money for the previous week on Monday mornings before 8AM. If a resident has a "0" in "Out of Area" then a $1 for each day of "out of area" is placed in the resident's Individual Trust Fund at Wells Fargo Bank. The administrator opens the Trust Savings Account in the resident's legal name, Date of Birth, and Social Security Number. The account may have additions, but no withdrawals by the resident until she is 18 years-of-age. Upon termination the resident or resident's representative will be given the Bank Book. Resident's account number and balance is listed on NSP under Life Skills.
10. Resident Incentives: Incentive monies are calculated from Resident's Point Sheet and each individual resident signs the sheet. Copies of the sheets are attached to the Petty Cash Sheet and placed with the receipts. If a child has chosen to AWOL only then does the incentive money go into the Trust Account. All other incentive money is logged onto the Cash Resources Sheet and is available for Client Use according to their NSP.

MACRO HOMES

Visitor Log

Date of Visit	Name and Address	Purpose of Visit	Time In	Time Out