COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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July 12, 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: **LIFECIRCLES UNLIMITED, 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 Lifecircles Unlimited, Inc. (Lifecircles or Agency) from July 1, 2009 through June 30, 2010. Lifecircles is located in the Fifth Supervisorial District, and is licensed to operate one group home (GH) with a resident capacity of six children.

DCFS and the Probation Department contract with Lifecircles to care for foster children placed in the Agency's home. DCFS paid Lifecircles $7,388 per child per month, based on a rate determined by the California Department of Social Services, for a total of $410,037 in Fiscal Year 2009-10.

The issuance of our report was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable Lifecircles to begin taking corrective action as soon as possible, we discussed the findings and recommendations from our review with Agency management on December 2, 2010.

Summary of Findings

We identified $406 in unallowable costs and $969 in unsupported/inadequately supported costs. Lifecircles also needs to strengthen its controls over its accounting and disbursements, petty cash, vehicle mileage logs, bank reconiciliations,

payroll/personnel records and fixed assets. 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 Lifecircles management takes action to address the recommendations in the report, and monitor to ensure that the actions result in permanent changes.

Review of Report

We discussed our report with Lifecircles management and DCFS on March 23, 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 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 Lifecircles 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., Acting Director, DCFS
Donald H. Blevins, Chief Probation Officer
Reaver E. Bingham, Deputy Chief, Probation
DeWayne Winrow, Executive Director, Lifecircles Unlimited, Inc.
Board of Directors, Lifecircles Unlimited, Inc.
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Lifecircles Unlimited, Inc.
Group Home Contract Provider
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $406 in unallowable expenditures and $969 in unsupported/inadequately supported expenditures. Details of these expenditures are discussed below.

Applicable Regulations and Guidelines

Lifecircles Unlimited, Inc. (Lifecircles, or Agency) 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

Lifecircles incurred $406 in unallowable expenditures:

- $226 in finance charges from a vehicle loan
- $100 for a parking violation
- $80 in non-sufficient funds fees

Circular A-122 Sections 16 and 23 indicate that interest and penalties are unallowable.

Unsupported/Inadequately Supported Expenditures

A-C Handbook section A.3.2 states that all expenditures must be supported by original vouchers, receipts, invoices, cancelled checks or other supporting documentation. Unsupported expenditures will be disallowed upon audit. We identified $969 in unsupported petty cash expenditures. The Agency indicated that the expenditures were for groceries and cleaning services, but could not provide itemized invoices or receipts.

Recommendations

1. **DCFS management resolve the $1,375 ($406 + $969) in unallowable and unsupported/inadequately supported expenditures, and collect any disallowed amounts.**

Lifecircles management:

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

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

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

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

Accounting and Disbursements

We noted weaknesses in the Agency's accounting and disbursements procedures:

- The Agency issued two checks, totaling $13,905, where the payee and check signer were the same person. Check disbursements should be approved by someone other than the payee to ensure the appropriateness of the transaction.

- The Agency held a $240 County warrant for three months before depositing it into the Agency's bank account. A-C Handbook Section B.1.2 states that collections of less than $500 may be held and deposited weekly, or when the total reaches $500, whichever occurs first. The Agency should consider enrolling in the County's direct deposit program to ensure payments are deposited timely.

Recommendations

Lifecircles management:

4. **Ensure that check disbursements are approved by someone other than the payee.**

5. **Deposit all County warrants within the required timeframe and consider enrolling in the County's direct deposit program.**

Petty Cash

A-C Handbook Section B.2.3 states that a petty cash fund of up to $500 may be maintained for payment of small incidental expenditures (e.g., postage, small purchases of office supplies, etc.). Written approval from DCFS is required to establish a petty cash fund greater than $500. In addition, petty cash should not be used as a substitute for normal purchasing and disbursement practices.

We noted that Lifecircles maintained a $2,000 petty cash fund, without DCFS authorization, and uses the fund for routine purchases and disbursements, such as groceries, landscaping services, clothing and monthly allowances. Lifecircles should pay these routine, non-incidental expenses by check or debit/credit card, and not petty cash. In addition, Lifecircles should limit the petty cash fund to $500, or obtain written approval from DCFS to increase the fund limit.

Recommendations

Lifecircles management:

6. **Pay all routine, non-incidental expenses by check or debit/credit card.**

7. **Limit the petty cash fund to $500, or obtain written approval from DCFS to increase the fund limit.**

Vehicle Mileage Logs

A-C Handbook Section A.3.2 requires agencies to maintain vehicle mileage logs that identify the dates, destinations, purpose, beginning and ending odometer readings, and the resulting mileage of trips. Although Lifecircles maintained gasoline expense receipts with the dates and destinations of trips that appeared reasonable, the Agency did not maintain vehicle mileage logs as required.

Recommendation

8. **Lifecircles management maintain mileage logs that identify the dates, destinations, purpose, beginning and ending odometer readings, and the resulting mileage of the trips.**

Bank Reconciliations

A-C Handbook Section B.1.4 states that bank reconciliations should be prepared within 30 days of the bank statement date, and be reviewed by management for appropriateness and accuracy. The bank reconciliations should be signed and dated by both the preparer and the reviewer.

We noted that none of the bank reconciliations we reviewed were signed or dated by the preparer or reviewer. As a result, we could not determine if they were prepared timely or reviewed.

Recommendation

9. **Lifecircles management ensure that the Agency's bank account reconciliations are reviewed, signed and dated by the preparer and reviewer.**

Payroll/Personnel Controls

A-C Handbook Section B.3.1 requires that all time cards or time reports be signed by the employee and supervisor to certify the accuracy of the reported time. We reviewed ten employee time cards and noted the following:

- Two (20%) time cards were not signed by the employee.
- None of the ten time cards were signed by a supervisor to indicate they had certified the accuracy of the reported time.

Recommendation

10. **Lifecircles management ensure time cards are signed by the employee and a supervisor to certify the accuracy of the reported time.**

Fixed Assets Listing

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

We reviewed the Agency's fixed assets listing and noted the listing does not include the item serial/identification numbers, purchase dates, acquisition cost, or source(s) of funding used to purchase the asset.

We also noted that the Agency does not inventory fixed assets at least annually, as required. The Agency should ensure its fixed asset listing contains all the information required by the A-C Handbook, and that Agency staff conduct an inventory of fixed assets at least annually.

Recommendation

11. **Lifecircles management ensure its fixed asset listing includes serial/identification numbers, purchase dates, acquisition cost, and source(s) of funding, and inventory fixed assets at least annually to ensure that all fixed assets are accounted for and maintained in proper working order.**

County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

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

JACKIE CONTRERAS, Ph.D.
Interim 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

May 12, 2011

DeWayne Winrow, Executive Director
Lifecircles Unlimited, Inc.
12152 Louise Avenue
Granada Hills, CA 91344

Dear Mr. Winrow:

AUDITOR-CONTROLLER'S FISCAL REVIEW OF LIFECIRCLES UNLIMITED, INC. - 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 July 1, 2009 through June 30, 2010. The FCAP fully addresses the audit report 11 recommendations (see Attachment III). In addition, the one recommendation directed to DCFS was fully addressed.

DCFS requires that Lifecircles Unlimited, Inc., as agreed to submit a check drawn on non-foster care funds in the total amount of $1,375.00. Please make your checks payable to DCFS Cashier and mail to:

Latisha Thompson, ASM III
Department of Children and Family Services
425 Shatto Place Rm. 304
Los Angeles, Ca. 90020

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

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)

"To Enrich Lives Through Effective and Caring Service"

ATTACHMENT III

FISCAL REVIEW OF LIFECIRCLES UNLIMITED, INC. - 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 received on May 11, 2011, submitted by Lifecircles Unlimited, Inc. status of each recommendation is summarized as follows:

- 11 Recommendations (1-11) were fully addressed.
- __ Recommendations (_____) were partially addressed.
- 1 Recommendation (1) directed to the Department was addressed.

Recommendation Status

1. **DCFS management resolves the $1,375 ($406 + $969) in unallowable and unsupported/inadequately supported expenditures and collect any disallowed amounts.**

   Agency Proposed FCAP: *Check has been issued in the amount of $1,375 and sent to DCFS Cashier. Supporting documents will be kept when purchases are made. Staff have been informed of their responsibility when receiving a parking ticket and all other costs they incur that is not the group home's responsibility.*

   DCFS Response: DCFS accepts the agency's response.

2. **Lifecircles management ensures that foster care monies are used for allowable expenditures to carry out the purpose and activities of the GH Program.**

   Agency Proposed FCAP: *The Administrator and Treasurer will ensure that all receipts are accountable for all checks written and distributed. Will ensure that monies are used for the purposes and activities of the GH Program.*

   (1)Policy and Procedures Handbook Section 1: Policy Statement: Lifecircles Unlimited Incorporated is committed to responsible financial management. The organization including the board of directors, administrators, and staff will work together to make certain that all financial matters of the organization are

addresses with care, integrity and in the best interest of Lifecircles Unlimited Inc.

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

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

   Agency Proposed FCAP: *The Administrator and Secretary will ensure that original receipts are accountable for all checks written and distributed.*

   (1) Accounting Policies and Procedures Handbook Section 2: The accounting will monitor and control expenditures, Ensure timely and accurate financial and management reporting.

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

4. **Lifecircles management ensures that check disbursements are approved by someone other than the payee.**

   Agency Proposed FCAP: *The Director will ensure that checks disbursed are approved by someone other than the payee.*

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

5. **Lifecircles management deposit all County warrants within the required timeframe and consider enrolling in the County's direct deposit program.**

   Agency Proposed FCAP: *The Director and Administrator will enroll in the County's direct deposit program.*

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

6. **Lifecircles management pay all routine, non-incidental expenses by check or debit/credit card.**

   Agency Proposed FCAP: *The Administrator and Secretary will ensure that non-incidental expenses are paid by check* or debit/credit card.

   Accounting Policies and Procedures Handbook Section 2: Monitor and control expenditures, ensure timely and accurate financial and management reporting.

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

7. **Lifecircles management limit the petty cash fund to $500, or obtain written approval from DCFS to increase the fund limit.**

   Agency Proposed FCAP: *Lifecircles Unlimited, Inc. will limit its petty cash fund to $500 or less.*

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

8. **Lifecircles management maintain mileage logs that identify the dates, destinations, purpose, beginning and ending odometer readings, and the resulting mileage of the trips.**

   Agency Proposed FCAP: *The Administrator will enforce the mileage log and staff has been in-service as to how to document the use of the log (see attachment I).*

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

9. **Lifecircles management ensure that the Agency's bank account reconciliations are reviewed, and signed and dated by the preparer and reviewer.**

   Agency Proposed FCAP: *The Accountant will sign and date all bank account reconciliations as the preparer. The Director or Secretary will sign and date all bank account reconciliations as the reviewer.*

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

10. **Lifecircles management ensure time cards are signed by the employee and a supervisor to certify the accuracy of the reported time.**

    Agency Proposed FCAP: *The Administrator will ensure that all time cards are signed by each employee. The Administrator will initial all time cards and approve.*

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

11. **Lifecircles management ensures its fixed asset listing includes serial/ identification numbers, date of purchase, the source(s) of funding and the acquisition cost, and inventory fixed assets at least annually to ensure that all fixed assets are accounted for and maintained in proper working order.**

    Agency Proposed FCAP: *The Administrator will keep a log of all fixed assets, which will include serial/identification number, date of purchase, the source(s) of funding and the cost. This inventory will be conducted annually by the Administrator and Secretary.*

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