COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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December 6, 2011

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **LITTLE PEOPLE'S WORLD, 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 Little People's World, Inc. (LPW or Agency), from January 1, through December 31, 2009. LPW is licensed to operate four group homes (GH), each with a resident capacity of six children. LPW has two homes located in the Second Supervisorial District, and two homes located in Riverside County.

DCFS and the Probation Department contract with LPW to care for foster children placed in the Agency's homes. DCFS paid LPW $5,891 per child per month, based on a rate determined by the California Department of Social Services, for a total of $1,112,598 during 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 LPW to begin taking corrective action as soon as possible, we discussed the findings and recommendations from our review with Agency management on September 23, 2010.

Summary of Findings

We identified $182,387 in unallowable expenditures, and $1,667 in unsupported/ inadequately supported expenditures. DCFS and the Agency also need to work together to resolve some potential overpayments.

$172,311 of the unallowable expenditures consists of non-salary payments to the Agency's Executive Director (ED). The ED initially told auditors that, during 2008 and 2009, the Agency "loaned" him money for GH upgrades, and to purchase property for a Program expansion. However, the ED could not provide any documentation that the loan was approved by the Board of Directors. The ED subsequently acknowledged using the funds to purchase non-GH related real estate in Riverside County, northern California, and Oklahoma. Because these funds were not used to benefit the GH program, we questioned Los Angeles County's share of these payments.

We also noted that LPW's audited financial statements for the year ended December 31, 2009 showed the Agency owed $317,765 in delinquent payroll taxes, and had $86,002 in negative net assets. It is unclear how LPW will maintain an adequate level of care, while addressing its losses and paying its delinquent payroll taxes, since the Agency has no reserves, and its only source of revenue is foster care funds. LPW should submit a plan to DCFS demonstrating how they will pay their payroll tax liability without using current period foster care funds. DCFS also needs to closely monitor the Agency to ensure the repayment of the taxes does not adversely affect the quality of services.

In addition, LPW needs to strengthen its controls over payroll/personnel procedures, bank reconciliations, and disbursements, and ensure that their Single Audit is completed and submitted to DCFS within the required timeframe. Details of our findings are discussed in Attachment I.

We have recommended that DCFS resolve the questioned costs and potential overpayments, and collect any disallowed amounts. DCFS should also ensure that LPW 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 LPW's management and DCFS on February 17, 2011. The period from February 17, 2011 to the issuance of this report includes a mandatory 90-day waiting period to allow the Agency to appeal the findings in the draft report. The Agency's response, which is incorporated into the DCFS' Fiscal Corrective Action Plan (Attachment II), indicates the Agency generally agrees with our findings and recommendations, and that LPW will repay the $184,054 in questioned costs. On

September 22, 2011 LPW entered into a repayment agreement with the County and has repaid $10,225 as of November 30, 2011.

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 LPW 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
Philip L. Browning, Interim Director, DCFS
Jerry E. Powers, Chief Probation Officer
Reaver E. Bingham, Deputy Chief Probation Officer
Cynthia McCoy-Miller, Administrative Deputy, DCFS
C.S.J. Kidogo, Executive Director, Little People's World, Inc.
Board of Directors, Little People's World, Inc.
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
Commission for Children and Families
Public Information Office
Audit Committee
Susan Loew, Director, Riverside County DPSS
Deanna Avey-Motikeit, Director, San Bernardino County DCFS

Little People's World, Inc.
Group Home Contract Provider
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $182,387 in unallowable expenditures, and $1,667 in unsupported/ inadequately supported expenditures. In addition, DCFS and LPW need to work together to resolve some potential overpayments. Details of these expenditures/ overpayments are discussed below.

Applicable Regulations and Guidelines

Little People's World, Inc. (LPW or Agency) is required to operate its group homes (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)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Expenditures

During 2008 and 2009, the Agency made $277,921 in non-salary payments to its Executive Director (ED). The ED initially told auditors that the funds were a "loan" for GH upgrades, and to purchase property for a Program expansion. However, the ED could not provide any evidence that the Board of Directors approved this loan. The ED subsequently acknowledged using the funds to purchase non-GH related real estate in Riverside County, northern California, and Oklahoma. In December 2009, the ED signed an agreement to repay the Agency without interest, over three years, beginning in December 2010. As of October 2011, the Agency indicated the ED had repaid $99,281.

Because 100% of LPW's revenue is from its GH Program, it appears that the payments to the ED were made using unexpended GH contract funds from Los Angeles, San Bernardino, and Riverside counties. Since LPW derived approximately 62% of its revenues from Los Angeles County for 2009, we calculated the County's share to be 62% of the $277,921, or $172,311. These funds were not used to benefit the GH Program, and are unallowable expenditures. We will also notify San Bernardino and Riverside counties that funds from their GH contracts with LPW were used for non-GH purposes.

LPW must discontinue the practice of loaning GH funds to employees, and obtain approval from the Board of Directors for all significant financial transactions.

We also noted $10,076 in unallowable penalties and interest charges:

- $7,353 in late fees and interest paid to the Internal Revenue Services (IRS) for delinquent payroll taxes in 2009;
- $1,824 in credit card interest;
- $856 in bank non-sufficient funds (NSF) fees; and,
- $43 in other late fees and penalties.

Circular A-122 Sections 16 and 23 indicate that penalties and interest are unallowable expenditures. In addition, A-C Handbook Section C.1.5 states that only expenditures that are necessary, proper, and reasonable to carry out the purposes and activities of the GH Program are allowable.

Unsupported/Inadequately Supported Expenditures

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

We identified $1,510 in credit card charges, and $157 in other expenditures that were either unsupported or inadequately supported. The Agency provided credit card statements, but no itemized receipts, or the receipts provided were inadequate to substantiate that the expenditures were GH-related.

Recommendations

DCFS management:

1. **Resolve the $184,054 ($182,387 + $1,667) in unallowable and unsupported/inadequately supported expenditures, and collect any disallowed amounts.**

LPW management:

2. **Discontinue loaning GH funds to employees.**
3. **Obtain Board of Directors approval for all significant financial transactions.**
4. **Ensure that foster care monies are used for allowable expenditures.**

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

Potential DCFS Overpayments

DCFS records show some potential overpayments made to the Agency. DCFS and LPW should work together to resolve the overpayments, and DCFS should collect any verified amounts. LPW management should ensure that any future payment discrepancies are reported to DCFS immediately, and any excess amounts are repaid promptly.

Recommendations

6. **DCFS work with LPW to resolve the overpayments, and collect any verified amounts.**

7. **LPW management ensure that any future payment discrepancies are immediately reported to DCFS, and any excess amounts are repaid promptly.**

PAYROLL TAX LIABILITIES

LPW's audited financial statements for the year ended December 31, 2009 show that the Agency owed $317,765 in delinquent payroll taxes, and had negative net assets of $86,002. It is unclear how LPW will continue to provide an adequate level of care while paying its delinquent payroll taxes and addressing its losses, since the Agency has no reserves, and its only source of revenue is foster care funds. As noted earlier, LPW used foster care funds to pay $7,353 in unallowable penalties and interest to the IRS in 2009 related to the delinquent payroll taxes.

LPW should submit a plan to DCFS demonstrating how they will pay their payroll tax liability without using current period foster care funds. DCFS should also closely monitor the Agency to ensure the repayment does not adversely affect the quality of its Program services.

Recommendations

8. **LPW management submit a plan to DCFS showing how the Agency will pay its payroll tax liability without using current period foster care funds.**

9. **DCFS closely monitor the Agency to ensure the repayment of its payroll tax liability does not adversely affect the quality of its Program services.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that LPW 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.

Payroll/Personnel 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 time cards or time reports must be signed by the employees and supervisors to certify the accuracy of the reported time.

We reviewed 12 employee personnel and payroll records, and noted the following:

- Three employee personnel files did not include the employees' current salary rate. However, we determined that the employees' salaries were reasonable based on the Child Welfare League of America (CWLA) Salary Study.
- Two employees' time cards were not available for our review.
- One time card was not signed by the supervisor.
- One employee's gross pay was miscalculated based on the hours recorded on the time card, resulting in a $24 overpayment. The Agency should resolve any potential overpayments.

LPW needs to ensure that current salaries are consistently documented and updated in the employees' personnel files, that time cards are completed for all employees, that employees' time cards are signed by the supervisors, and that hourly employees' pay is computed correctly.

Recommendations

LPW management:

10. Ensure employee salaries are consistently documented and updated in the employees' personnel files.

11. Ensure time cards are completed for all employees.

12. Ensure time cards are signed by the employee's supervisor to certify the accuracy of the reported time.

13. Ensure hourly employees are paid for the hours on their time cards, and resolve any potential overpayments.

Bank Reconciliations

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

We reviewed LPW's monthly bank reconciliations, and noted that they were not signed and dated by the reviewer. LPW needs to ensure that bank reconciliations are signed and dated by the reviewer.

Recommendation

14. LPW management ensure bank reconciliations are signed and dated by the reviewer.

Disbursements

A-C Handbook Section B.2.1 states that supporting documents for all disbursements should be referenced to check numbers, and marked "paid", or otherwise canceled, to prevent reuse or duplicate payments.

We reviewed 31 non-payroll items, and noted that the supporting documents for 11 (36%) were not marked "paid". While we did not note any duplicate payments, LPW management should ensure all supporting documents are marked "paid".

Recommendation

15. LPW management ensure all supporting documents are marked "paid."

Single Audit Completion

CDSS-MPP Section 11-405 states that all non-profit corporations that expend over $300,000 in federal funds (e.g., GH funds) must have an annual Single Audit in accordance with OMB Circular A-133. A copy of the Audit must be submitted to DCFS no later than nine months after the end of the agency's fiscal year.

We noted that LPW did not submit their 2009 Single Audit report to DCFS until March 2011. LPW management should ensure its Single Audit submitted to DCFS as required.

Recommendation

16. **LPW management ensure its Single Audit is completed and submitted to DCFS as required.**

County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
425 Shatto Place, Los Angeles, California 90020
(213) 351-5602

JACKIE CONTRERAS, Ph.D.
Acting Director

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Third District
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Fourth District
MICHAEL D. ANTONOVICH
Fifth District

August 2, 2011

C.S.J. Kidogo, Executive Director
Little People's World, Inc.
P.O. BOX 248
Cherry Valley, CA 92223

Dear Mr. Kidogo:

AUDITOR-CONTROLLER'S FISCAL REVIEW OF LITTLE PEOPLE'S WORLD, INC. - A GROUP HOME FOSTER CARE CONTRACT PROVIDER

We have reviewed your fiscal corrective action plan (FCAP) received on July 28, 2011 in response to the Auditor-Controller's final draft fiscal audit.

With regard to the $184,054 in questioned costs, Little People's World, Inc., and DCFS agreed that the total of $184,054 was disallowed and must be repaid to the Department.

Please contact the Los Angeles County Treasurer and Tax Collector (TTC), by August 8, 2011 to schedule a date and time to sign a repayment agreement for the amount of $184,054. The terms of the repayment agreement would be determined and negotiated with TTC. Please contact:

Fernando Rubio Jr., 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
frubio@ttc.lacounty.gov

If you have any questions, please contact Ali Gomaa-Mersal, Financial Specialist IV, at (213) 351-3209.

Sincerely,

Latisha Thompson

Latisha Thompson, ASM III
Fiscal Monitoring and Special Payments

Attachment

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 I

FISCAL REVIEW OF LITTLE PEOPLE'S WORLD, INC. - A GROUP HOME FOSTER CARE CONTRACT PROVIDER

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 July 28, 2011, submitted by Little People's World, Inc., status of each recommendation is summarized as follows:

- 16 Recommendations (1 - 16) were fully addressed.
- __ Recommendations (____) were partially addressed.
- 3 Recommendations (1, 6 & 9) directed to the Department were addressed.

Recommendation Status

1. **DCFS management resolves the $184,054 ($182,387 + $1,667) in unallowable and unsupported/inadequately supported expenditures and collect any disallowed amounts.**

   Agency Proposed FCAP: LPW will be make payments arrangement with the LA Treasury Dept. to the repay the $184,054 in unsupported expenditures. LPW will be requesting a 60 months repayment plan for a monthly payment of $3,067.57 per month. This payment will be deducted from the executive directors' salary.

   DCFS Response: Please contact the Los Angeles County Treasurer and Tax Collector (TTC), as soon as possible to schedule a date and time to sign a repayment agreement for the amount of $184,054. The terms of the repayment agreement would be determined and negotiated with the TTC. Please contact:

   Fernando Rubio Jr., 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
   frubio@ttc.lacounty.gov

2. **LPW management discontinues the practice of loaning GH funds to employees.**

   Agency Proposed FCAP: LPW will not longer loan GH funds to any employee.

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

3. **LPW management obtains approval from the Board of Directors for significant financial transactions.**

   Agency Proposed FCAP: LPW will obtain prior approval and consent from the board of directors for any significant monetary GH funds transaction. Board minutes and board resolutions will be recorded and will be kept for any significant monetary transactions.

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

4. **LPW management ensures that foster care monies are used for allowable expenditures.**

   Agency Proposed FCAP: LPW will ensure that foster care funds will be used only for allowable expenditures for the agency.

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

5. **LPW management maintain adequate supporting documentation for Agency expenditures, including original itemized invoices and receipts.**

   Agency Proposed FCAP: LPW will maintain and keep all supporting documentation for all allowable expenditures related to program cost. This will include original itemized invoices, receipts, contracts and any other original proof of payment.

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

6. **DCFS work with LPW to resolve the overpayments and collect any verified overpayments.**

   Agency Proposed FCAP: LPW will establish an account receivable ledger to minimize any future DCFS overpayment and will return any payment to DCFS for any overpayment. LPW will sign a repayment agreement for the current overpayment balance.

DCFS Response: DCFS accepts the agency's response. Please contact Luis Castaneda, Supervisor, Overpayment Unit, (213) 351-3212 to reconcile any overpayments on record.

7. **LPW management ensures that any future payment discrepancies are *immediately reported to DCFS and any excess amounts are repaid* promptly.**

   Agency Proposed FCAP: LPW will establish an account receivable ledger to minimize any future DCFS overpayment and will return any payment to DCFS for any overpayment. LPW will not cash any overpayment warrant and it will return it to DCFS.

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

8. **LPW management submits a plan to DCFS showing how the Agency will pay its payroll tax liability without using current period foster care funds.**

   Agency Proposed FCAP: LPW will make back payroll tax liability payments by deducting $4,000.00 per month from the executive directors' salary.

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

9. **DCFS closely monitor the Agency to ensure the repayment of its payroll tax liability does not adversely affect the quality of its program services.**

   Agency Proposed FCAP: LPW will make back payroll tax liability by deducting $4,000.00 per month from the executive directors' salary. Base on this arrangement the agencies cash flow for the program services will not be affected.

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

10. **LPW management ensures employee salary rates are consistently documented and updated in the employees' personnel files.**

    Agency Proposed FCAP: LPW will establish a procedure/form that will document any salary rate increase/decrease for all employees. This procedure/form will available on all employees' personnel file. In addition new

procedure/ form will be sign and dated by the employee with the approval of the supervisor.

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

11. **LPW management ensures time cards are completed for all employees.**

    Agency Proposed FCAP: LPW will ensure that all paid employees will complete a time card/sheet before they can get paid.

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

12. **LPW management ensures the time cards are signed by the employee's supervisor to certify the accuracy of the reported time.**

    Agency Proposed FCAP: LPW will ensure that all employees' timecards/sheet will be review, sign and dated by the employee's supervisor to certify the accuracy of the reported time.

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

13. **LPW management ensures hourly employees are compensated for the hours documented on their time cards and resolve any potential overpayments.**

    Agency Proposed FCAP: LPW will ensure that all hourly employees will be compensated for the hours worked according to the hours reported and approved on the timecards/sheet to minimize any payment discrepancies.

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

14. **LPW management should ensure bank statement reconciliations are signed and dated by the reviewer.**

    Agency Proposed FCAP: LPW will ensure that all bank reconciliations will be sign and dated by the reviewer on a monthly basis.

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

15. **LPW management ensure all supporting documentation is marked "paid**

Agency Proposed FCAP: LPW will ensure that all invoices and bills will be mark **"PAID"**, dated, check number and the initials of the person who made the payment to eliminate duplicate payments.

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

16. **LPW management ensures its Single Audit is completed and submitted to DCFS in a timely manner.**

Agency Proposed FCAP: LPW will ensure that the annual financial audit (Single Audit) is prepared on a timely manner. LPW will work with the CPA to provide all the requested paperwork on time by engaging with the CPA firm at the beginning of the year.

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