



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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ASST. AUDITOR-CONTROLLERS

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JUDI E. THOMAS

March 19, 2012

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: **DIAKONIA, 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 Diakonia, Inc. (Diakonia or Agency), from January 1 through December 31, 2009. Diakonia is licensed to operate three group homes (GH), each with a resident capacity of six children. Diakonia's GHs are located in San Bernardino County, but the Agency received approximately 40% of their total revenue from Los Angeles County.

DCFS and the Probation Department contract with Diakonia to care for foster children placed in the Agency's homes. DCFS paid Diakonia \$6,757 per child per month, based on a rate determined by the California Department of Social Services, for a total of \$367,311 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 Diakonia to begin taking corrective action as soon as possible, we discussed the findings and recommendations from our review with Agency management on August 19, 2010. After that meeting, the Agency made numerous requests for additional time to locate supporting documentation related to the questioned costs, which further delayed this report.

Summary of Findings

We identified \$629 in unallowable expenditures, and \$18,692 in unsupported/inadequately supported expenditures. Diakonia also needs to strengthen its controls over disbursements, petty cash, payroll/personnel procedures, bank reconciliations, and fixed assets. The Agency also needs to ensure it complies with the requirements to have a Single Audit completed, and file a copy of the audit report with 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 Diakonia 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 Diakonia's management and DCFS on November 29, 2011. The period from November 29, 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 DCFS' Fiscal Corrective Action Plan (Attachment II), indicates the Agency's general agreement with our findings and recommendations, and that they will repay the \$19,321 (\$629 + \$18,692) in questioned costs.

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 Diakonia management and staff for their cooperation 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

Board of Supervisors

March 19, 2012

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c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, DCFS
Jerry E. Powers, Chief Probation Officer
Reaver E. Bingham, Deputy Chief, Probation Department
Leo Wright, Executive Director, Diakonia, Inc.
Board of Directors, Diakonia, Inc.
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Diakonia, Inc.
Group Home Contract Provider
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified \$629 in unallowable expenditures, and \$18,692 in unsupported/inadequately supported expenditures. Details of these expenditures are discussed below.

Applicable Regulations and Guidelines

Diakonia, Inc. (Diakonia 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 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 \$629 in unallowable expenditures: \$440 in credit card finance charges and \$189 in non-sufficient fund (NSF) fees. Circular A-122 Sections 16 and 23 state that penalties and interest are unallowable expenditures.

Unsupported/Inadequately Supported Expenditures

A-C Handbook Section A.3.2 states that all expenditures must be supported by original vouchers, invoices, receipts, canceled checks, or other documentation. Unsupported expenditures will be disallowed upon audit. In addition, A-C Handbook Section B.2.1 indicates that all disbursements, other than petty cash, should be made by check, and checks should not be made payable to "cash".

We identified \$18,692 in expenditures that were either unsupported or inadequately supported. Specifically:

- \$10,105 in ATM withdrawals and checks made payable to "cash". The Agency did not provide itemized receipts to identify how the funds were spent, or how the expenditures benefited the GH Program.

- \$4,895 in salary payments to two employees for whom the Agency could not provide time cards or other supporting documentation.
- \$3,692 in credit card and other charges that were either unsupported or inadequately supported. Specifically, the Agency provided credit card statements, but no itemized receipts, or the receipts provided were inadequate to substantiate that the expenditures were related to the GH Program.

Recommendations

1. **DCFS management resolve the \$19,321 (\$629 + \$18,692) in unallowable and unsupported/inadequately supported expenditures, and collect any disallowed amounts.**

Diakonia management:

2. **Ensure that foster care funds are used for allowable expenditures.**
3. **Discontinue making cash withdrawals, and ensure all expenditures are paid by check to specific persons or vendors.**
4. **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. Department of Children and Families Services (DCFS) should ensure that Diakonia 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.

Disbursements Controls

The Agency issued 46 checks, totaling \$108,725, where the check signer was also the payee. Most of these checks were lease payments to the Executive Director and her husband. Proper disbursement procedures require a second signature from someone independent of the transaction, and at a higher level, to verify the appropriateness of the expense.

Recommendation

5. **Require a second signature on all checks where the payee and the check signer are the same employee.**

Petty Cash

A-C Handbook Section B.2.3 allows agencies to have a petty cash fund of up to \$500 to pay for small incidental expenses (e.g., postage due, small purchases of office supplies, etc.). The fund should not be used as a substitute for normal purchasing and disbursement practices. Agencies should maintain the petty cash fund on an imprest (fixed amount) basis, and make checks payable to the fund custodian to establish and periodically replenish the fund. A-C Handbook Section B.2.1 states that checks should not be made payable to “cash”.

Diakonia used its petty cash as a substitute for normal purchasing and disbursement practices. The Agency consistently used petty cash to purchase food, clothing, household supplies, etc., that were not small incidental expenses. In addition, Diakonia did not maintain their petty cash fund on an imprest basis, and always made petty cash replenishment checks payable to “cash”, instead of the fund custodian.

Recommendations

Diakonia management:

- 6. Ensure petty cash is only used for small incidental expenses.**
- 7. Maintain the petty cash fund on an imprest basis.**
- 8. Ensure petty cash fund replenishment checks are not made payable to “cash”.**

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 prepared for each pay period, and must be signed by the employee and supervisor to certify the accuracy of the reported time.

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

- Two (17%) personnel files did not contain the employees’ current authorized salary rates. However, we determined the employees’ salaries were reasonable based on the Child Welfare League of America (CWLA) Salary Study.
- Two (17%) time cards did not match the payroll register. Specifically, Diakonia paid two employees for a total of 353 hours, but the timecards only showed 253 hours worked. This resulted in potential overpayments to the employees totaling \$904.

- Three (25%) time cards were not signed by the employees.
- The Agency did not provide time cards for two (17%) salaried employees. Agency management stated these employees normally prepare time cards, but the Agency did not produce them for our review. We questioned these salary payments as part of the Unsupported/Inadequately Supported Expenditures.
- One (9%) employee's time card was not signed by the supervisor to approve the hours worked.

Recommendations

Diakonia management:

9. **Ensure employees' salary rates are consistently documented and updated in the personnel files.**
10. **Resolve any potential overpayments resulting from discrepancies between time cards and the payroll register.**
11. **Ensure time cards are consistently and accurately maintained, and are signed by the employee and a supervisor to certify the accuracy of the reported time.**

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. Both the preparer and the reviewer should sign and date the bank reconciliations. Diakonia management acknowledged that they do not reconcile their bank accounts.

Timely bank reconciliations are necessary to identify and reconcile differences between the Agency's accounting records and its bank balances. In addition, bank reconciliations aid in identifying deposits that were not credited to the Agency's account, and checks that did not clear the bank within a reasonable period of time.

Recommendation

12. **Diakonia management ensure bank statement reconciliations are prepared within 30 days of the bank statement date, and that the reconciliations are signed and dated by both the preparer and reviewer.**

Fixed Assets

A-C Handbook Section B.4.2 requires agencies to tag all fixed assets, and keep 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 fixed assets at least annually, to ensure that all fixed assets are accounted for, and are maintained in proper working order.

We noted that the Agency does not tag its fixed assets. In addition, the fixed asset listing did not include the serial number, acquisition cost, or source(s) of funding for each item. We also noted that the Agency does not inventory fixed assets on an annual basis, as required.

Recommendations

Diakonia management:

- 13. Ensure fixed assets are appropriately tagged, and keep a listing of fixed assets that includes the serial number, acquisition cost, and source(s) of funding for each item.**
- 14. Inventory fixed assets at least annually to ensure that all fixed assets are accounted for, and are maintained in proper working order.**

Single Audit

CDSS-MPP Section 11-405 states that all non-profit corporations that receive over \$300,000 in federal funds (e.g., GH funds) must have an annual Single Audit in accordance with Circular A-122. Agencies must submit a copy of the audit report to DCFS no later than nine months after the end of the agency's fiscal year.

We noted that Diakonia did not undergo a Single Audit for Fiscal Year 2009, even though the Agency received over \$900,000 in federal funds. Diakonia management indicated that they misunderstood the requirement, and believed they only needed to complete a Single Audit every three years.

Recommendations

Diakonia management:

- 15. Complete the required Single Audit for Fiscal Year 2009 and submit a copy to DCFS.**

16. **Ensure Single Audits are conducted timely in accordance with Circular A-122 requirements and submitted timely to DCFS.**



PHILIP L. BROWNING
Interim Director

**County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

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(213) 351-5602

Board of Supervisors
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Fifth District

February 10, 2011

Leo Wright, Director
Diakonia, Inc.
P.O. Box 700
Rialto, CA 92377

Dear Mr. Wright:

**AUDITOR-CONTROLLER'S FISCAL REVIEW OF DIAKONIA, INC - A GROUP HOME
FOSTER CARE CONTRACT PROVIDER**

We have reviewed your revised fiscal corrective action plan (FCAP) received on February 7, 2012 in response to the Auditor-Controller's final draft fiscal audit. Additionally, Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

With regard to the \$19,321 in questioned costs, Diakonia, Inc., and DCFS agreed that the total of \$19,321 was disallowed and must be repaid to the Department. DCFS accepts Diakonia's request for a three month repayment plan. 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

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

Sincerely,

Latisha Thompson, ASM III
Fiscal Monitoring and Special Payments

Attachment

- c: Mike McWatters, Chief Accountant-Auditor (via electronic mail only)
- Sandra Gomez, Principal Accountant-Auditor (via electronic mail only)

"To Enrich Lives Through Effective and Caring Service"

FISCAL REVIEW OF DIAKONIA, 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 revised FCAP dated February 7, 2012, submitted by Diakonia, Inc., status of each recommendation is summarized as follows:

- 16 Recommendations (1 – 16) were fully addressed.
- Recommendations () were partially addressed.
- 1 Recommendation (1) directed to the Department was addressed.

Recommendation Status

- ~~1. **DCFS management resolve the \$19,321 (\$629 + \$18,692) in unallowable and unsupported/inadequately supported expenditures and collect any disallowed amounts.**~~

Agency Proposed FCAP: Diakonia agrees to the findings of \$629 in unallowable cost and the \$18,692 in unsupported/inadequately supported expenditures and agrees to repay this amount to DCFS. The monthly amount to be paid will be an agreement between Diakonia and DCFS.

DCFS Response: With regard to the \$19,321 in questioned costs, Diakonia, Inc., and DCFS agreed that the total of \$19,321 was disallowed and must be repaid to the Department. DCFS accepts Diakonia's request for a three month repayment plan. 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

2. **Diakonia management ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the GH program.**

Agency Proposed FCAP: See answer to # 4

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

- 3. Diakonia management discontinue the practice of making cash withdrawals and ensure all expenditures are paid by check to specific persons or vendors.**

Agency Proposed FCAP: Diakonia will no longer make checks payable to cash.

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

- 4. Diakonia management maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

Agency Proposed FCAP: Management at Diakonia is insuring that all original receipts/invoices are kept and filed properly to support all purchase and payments. These documents will verify that all transaction were for group home expense.

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

- 5. Diakonia management require a second signature on all checks where the payee and the check signer are the same employee.**

Agency Proposed FCAP: ~~Diakonia management will no longer write checks to the payee where the payee is also the signer. Diakonia will implement a procedure where two signatures will be required on all checks.~~

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

- 6. Diakonia management ensure petty cash is only used for small incidental expenses.**

Agency Proposed FCAP: Diakonia management will insure that all checks written for petty cash will be made payable to individual responsible for petty cash. The petty cash log will be updated after every transaction and all receipts will be filed and kept with the petty cash log.

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

- 7. Diakonia management maintain the petty cash fund on an imprest basis.**

Agency Proposed FCAP: Petty cash will only be used for small incidental purchases and monies will not exceed \$500 weekly.

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

8. **Diakonia management ensure petty cash fund replenishment checks are not made payable to "cash".**

Agency Proposed FCAP: See response to # 6.

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

9. **Diakonia management ensure employees' salary rates are consistently documented and updated in the personnel files.**

Agency Proposed FCAP: Diakonia management will review all employee files monthly to assure that all files are up to date for payroll data etc. Also the Administrator and Executive Director will review time cards every pay period to assure accuracy. This will review will include the verification the proper pay rate and for signatures.

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

10. **Diakonia management resolve any potential overpayments resulting from discrepancies between timecards and the payroll register.**
-

Agency Proposed FCAP: Where discrepancies were identified, Diakonia management will review the data and make corrections. Action taken in # 9 will prevent this problem from reoccurring in the future.

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

11. **Diakonia management ensure time cards are consistently and accurately maintained, and are signed by the employee and a supervisor to certify the accuracy of the reported time.**

Agency Proposed FCAP: See # 9

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

12. **Diakonia management ensure bank statement reconciliations are prepared within 30 days of the bank statement date, and that the reconciliations are signed and dated by both the preparer and reviewer.**

Agency Proposed FCAP: Bank reconciliations will be prepared within 30 days of bank statement date and signed and dated by both the preparer and reviewer.

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

13. **Diakonia management ensure fixed assets are appropriately tagged, and keep a listing of fixed assets that includes the serial number, acquisition cost and source(s) of funding for each item.**

Agency Proposed FCAP: As with most business of this type, fixed assets are very limited because items are household items and they are expensed. The only items that are usually considered as a fixed asset are vehicles and office equipment that would be capitalized at over \$500. These items would show on the 990 tax return. Whenever fix assets are determine to exist, they will be properly indentified, tagged and inventoried annually.

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

14. **Diakonia management inventory fixed assets at least annually to ensure that all fixed assets are accounted for and maintained in proper working order.**

Agency Proposed FCAP: See # 13.

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

15. **Diakonia management complete the required Single Audit for fiscal year 2009 and submit a copy to DCFS.**

Agency Proposed FCAP: The audit required for 2009 has been submitted.

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

16. **Diakonia management ensure Single Audits are conducted timely in accordance with Circular A-133 requirements and submitted timely to DCFS.**

Agency Proposed FCAP: Diakonia is required to submit a financial audit annually, Diakonia will comply.

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