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April 4, 2013

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **WINGS OF REFUGE FAMILY SERVICE AGENCY – A DEPARTMENT OF PUBLIC SOCIAL SERVICES COMMUNITY SERVICES BLOCK GRANT PROGRAM PROVIDER – CONTRACT COMPLIANCE REVIEW**

At the request of the Department of Public Social Services (DPSS), we completed a review of Wings of Refuge Family Service Agency (Wings of Refuge or Agency), which covered a sample of transactions from January 2010 through July 2012. DPSS contracted with Wings of Refuge, a non-profit organization, to operate the Community Services Block Grant (CSBG) Program which provided services to eligible low-income youth between the ages of 15 and 23, and their families. CSBG Program services include conducting counseling sessions, performing assessments, and providing vocational and life skills education services. Wings of Refuge's CSBG contract expired in December 2012. However, the Agency has other contracts with the Department of Children and Family Services (DCFS) and the Department of Public Health (DPH).

The purpose of our review was to determine whether Wings of Refuge appropriately accounted for and spent CSBG Program funds to provide the services outlined in their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with their contract and other applicable guidelines.

DPSS paid the Agency approximately $30,400 for the CSBG Program for Fiscal Year (FY) 2011-12, based on a fixed-rate per participant. Wings of Refuge provided services to residents of the Fifth Supervisorial District.

Results of Review

Wings of Refuge is experiencing significant financial viability issues and we are concerned that both DCFS and DPH have existing contracts with the Agency. According to the Agency's audited financial statements for the year ended December 31, 2011, their debt has grown to $2.6 million (an increase of $400,000 from the prior year). The Agency's negative assets as of December 31, 2011 ($375,091) and Net Operating Loss ($299,594) also increased from the prior year. The Agency also owes $556,585 in delinquent payroll taxes for January 2010 through June 2012.

We discussed the Agency's financial issues with DCFS and DPH in February 2013. DCFS received a Corrective Action Plan (CAP) from Wings of Refuge in response to our December 19, 2011 report on their Foster Family contract. DCFS indicated they will continue to closely monitor the Agency to ensure the CAP is fully implemented. In addition, DPH indicated that they are conducting an internal review of Wings of Refuge and will also continue to closely monitor the Agency to ensure compliance with their County contract. Based on Wings of Refuge's significant financial issues, DPSS should place the Agency in the County's Contractor Alert Reporting Database (CARD).

Our review also indicated that Wings of Refuge did not always comply with all the requirements of its County contract. For example, Wings of Refuge:

- Billed DPSS $5,213 for unallowable or unsupported expenditures.
- Did not provide documentation to support the method used to allocate $3,707 in employee health insurance costs billed to the Program during FY 2011-12.
- Did not complete monthly bank reconciliations for their general account as required. In addition, Wings of Refuge did not resolve 28 reconciling items totaling $786,043 and 16 outstanding checks totaling $21,997 for their payroll account as required.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our draft report with Wings of Refuge and DPSS on November 13, 2012. The Agency did not submit a corrective action plan on how they plan to implement the recommendations in our report. DPSS will follow up with Wings of Refuge to ensure they implement our recommendations. DPSS also agreed to place the contractor in CARD.

We thank Wings of Refuge management for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:AB:DC:AA

c: William T Fujioka, Chief Executive Officer
Sheryl L. Spiller, Director, DPSS
Philip L. Browning, Director, DCFS
Jonathan E. Fielding, M.D., M.P.H., Director, DPH
James Smith, Board Chairman, Wings of Refuge
Renee Moncito, Executive Director, Wings of Refuge
Public Information Office
Audit Committee

WINGS OF REFUGE FAMILY SERVICE AGENCY
COMMUNITY SERVICES BLOCK GRANT PROGRAM
JANUARY 2010 THROUGH JULY 2012

FINANCIAL VIABILITY

Wings of Refuge Family Service Agency (Wings of Refuge or Agency) is experiencing significant financial viability issues. Although the Department of Public Social Services' (DPSS) Community Services Block Grant (CSBG) contract with the Agency expired in December 2012, we are concerned that both the Department of Children and Family Services (DCFS) and the Department of Public Health (DPH) have existing contracts with the Agency. The DCFS contract will expire in October 2013 and the DPH contract will expire in June 2014.

According to the Agency's audited financial statements for the year ended December 31, 2011, their debt has grown to $2.6 million (an increase of $400,000 from the prior year). The Agency's negative assets as of December 31, 2011 ($375,091) and Net Operating Loss ($299,594) also increased from the prior year. The Agency also owes $556,585 in delinquent payroll taxes for January 2010 through June 2012, and incurred $1,260 in non-sufficient fund and overdraft fees from January 2011 through July 2012.

We discussed the Agency's financial issues with DCFS and DPH in February 2013. DCFS received a Corrective Action Plan (CAP) from Wings of Refuge in response to our December 19, 2011 report on their Foster Family contract. DCFS indicated they will continue to closely monitor the Agency to ensure the CAP is fully implemented. In addition, DPH indicated that they are conducting an internal review of Wings of Refuge and will also continue to closely monitor the Agency to ensure compliance with their County contract. Based on Wings of Refuge's significant financial issues, DPSS should place the Agency in the County's Contractor Alert Reporting Database.

ELIGIBILITY

Objective

Determine whether Wings of Refuge provided services to individuals who met the CSBG Program eligibility requirements.

Verification

We reviewed the case files for the four participants who received services during April and May 2012 to confirm supporting documentation was retained in the folder to confirm their eligibility for CSBG Program services.

Results

Wings of Refuge had documentation to support all four participants' eligibility for CSBG Program services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether Wings of Refuge provided the services required by their County contract and CSBG Program guidelines, and whether the Program participants received the billed services.

Verification

We reviewed the case files for all four participants who received services during April and May 2012.

Results

Wings of Refuge provided services in accordance with their County contract.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine whether Wings of Refuge staff had the qualifications required by their County contract.

Verification

We reviewed the personnel files for two (50%) of the four Wings of Refuge employees who worked on the CSBG Program.

Results

Wings of Refuge's staff had the qualifications required by their County contract.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether Wings of Refuge recorded revenue in its financial records properly, deposited cash receipts into the Agency's bank accounts timely, and completed and approved bank account reconciliations appropriately.

Verification

We interviewed Wings of Refuge management, and requested the Agency's financial records and May 2012 bank reconciliations.

Results

Wings of Refuge recorded revenue in their financial records properly and deposited DPSS payments into the Agency's bank accounts timely. However, Wings of Refuge did not complete monthly bank reconciliations for their general account as required. Specifically, Agency management indicated they had not completed bank reconciliations for their general account since September 2010.

In addition, the Agency's May 2012 payroll account bank reconciliation included 28 reconciling items totaling $786,043, with 12 (43%) items that dated back to 2009. Also, there were 16 checks totaling $21,997 that had been outstanding for more than six months.

Recommendation

1. **If DCFS and DPH continue contracting with the Agency, Wings of Refuge management ensure bank reconciliations are completed, and reconciling items and outstanding checks are resolved in a timely manner.**

EXPENDITURES/PROCUREMENT

Objective

Determine whether expenditures charged to the CSBG Program were allowable under the County contract, properly documented, and accurately billed.

Verification

We interviewed Wings of Refuge's personnel, and reviewed 12 non-payroll expenditures, totaling $5,369 that the Agency charged to the CSBG Program during December 2011 through June 2012.

Results

Wings of Refuge inappropriately charged $5,213 (97%) of the $5,369 in non-payroll expenditures reviewed to the CSBG Program. Specifically, the Agency did not provide original invoices, receipts, lease agreements, and/or documentation to support the methods used to allocate $4,446 in shared non-payroll expenditures reviewed. In addition, Wings of Refuge acknowledged they erroneously billed DPSS $767 for unallowable depreciation and supplies.

The percentage of unsupported and unallowable expenditures charged to the CSBG Program is significant. Therefore, Wings of Refuge will need to review and reallocate all non-payroll expenditures charged during the contract term, provide DPSS with supporting documentation, and repay any overbilled amounts.

Recommendations

Wings of Refuge management:

2. **Repay DPSS $4,446 or provide DPSS with supporting documentation for the expenditures.**

3. **Repay DPSS $767 for the unallowable depreciation and supplies expenditures.**

4. **Review and reallocate all non-payroll expenditures charged to the CSBG Program during the contract term, provide DPSS with supporting documentation, and repay any overbilled or unsupported amounts.**

5. **Before renewing or entering into any new contracts with the County, develop procedures to ensure that all expenditures billed to the County are allowable and properly documented.**

PAYROLL AND PERSONNEL

Objective

Determine whether Wings of Refuge charged payroll costs to the CSBG Program appropriately, and obtained required criminal background clearances and verified employment eligibility for the Agency's CSBG Program staff.

Verification

We compared May 2012 payroll costs for two employees, totaling $1,442 to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for two Wings of Refuge CSBG Program staff.

Results

Wings of Refuge obtained the required background clearances and verified employment eligibility for their CSBG Program staff. However, the Agency did not provide documentation to support the method used to allocate $181 in employee health insurance costs to the CSBG Program for May 2012. As a result, we expanded our review and identified an additional $3,526 in questioned health insurance costs charged to the CSBG Program for Fiscal Year (FY) 2011-12.

Recommendations

Wings of Refuge management:

6. **Repay DPSS $3,707 ($181 + $3,526) or provide DPSS with supporting documentation.**

7. **Review and reallocate all health insurance costs charged to the CSBG Program during the contract term, provide DPSS with supporting documentation, and repay any overbilled or unsupported amounts.**

COST ALLOCATION PLAN

Objective

Determine whether Wings of Refuge's Cost Allocation Plan was prepared in compliance with their County contract, and was used to allocate shared costs appropriately.

Verification

We reviewed the Agency's Cost Allocation Plan, and a sample of expenditures from December 2011 through June 2012.

Results

Wings of Refuge's Cost Allocation Plan was prepared in compliance with their County contract. However, the Agency did not provide documentation to support the methods used to allocate shared expenditures charged to the CSBG Program as discussed above.

Recommendation

Refer to Recommendations 4 and 7.

CLOSE-OUT REVIEW

Objective

Determine whether Wings of Refuge had any unspent revenue for the CSBG Program for FY 2011-12.

Verification

We compared total revenues and expenditures from Wings of Refuge's FY 2011-12 close-out report to the Agency's accounting records, and to DPSS' payment records.

Results

Wings of Refuge's close-out report indicated that they did not have any unspent revenue for FY 2011-12. However, the Agency needs to revise their accounting records based on our recommendation above, provide DPSS with revised close-out reports for the contract term, and repay any unspent revenue.

Recommendation

8. **Wings of Refuge management revise their accounting records, provide DPSS with revised close-out reports for the contract term, and repay any unspent revenue.**