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

PHILIP L. BROWNING
Director

Board of Supervisors
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First District
MARK RIDLEY-THOMAS
Second District
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Third District
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MICHAEL D. ANTONOVICH
Fifth District

April 27, 2015

To: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Shelia Kuehl
Supervisor Don Knabe

From: Philip L. Browning
Director

PENNACLE FOUNDATION, INC. GROUP HOME FISCAL COMPLIANCE ASSESSMENT

The County of Los Angeles Department of Children and Family Services (DCFS), Contracts Administration Division (CAD), Contract Fiscal Compliance completed an on-site Fiscal Compliance Assessment of Pennacle Foundation Inc. (the Group Home) in August, 2014. The Group Home contract was terminated on December 1, 2014.

The Fiscal Compliance Assessment included a review of the Group Home's financial records, such as audited financial statements, bank statements, check register, and personnel files. The review was conducted to determine the Group Home's compliance with the terms, conditions, and requirements of their contract, the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) and other applicable federal, State, and County regulations and guidelines.

SUMMARY

The Group Home was in full compliance with 3 of 5 areas of the Fiscal Compliance Assessment: Loans, Advances and Investments; Board of Directors and Business Influence; Payroll and Personnel.

CAD noted deficiencies in the areas of: Financial Overview, related to not submitting Semi-Annual Expenditure Reports, a loan from the Agency's Executive Director and unpaid payroll taxes; and Cash/Expenditures, related to outstanding check items.

Attached are the details of our review.

REVIEW OF REPORT

On November 24, 2014, Ali Gomaa-Mersal, DCFS Financial Specialist IV, held an exit conference with the Group Home representatives Carolyn C. Ruffin, Executive Director and Lawrence Thomas, Finance Manager. The Group Home representatives agreed with the review findings and recommendations; were receptive to implementing changes to improve compliance with its DCFS contract and to resolve the noted deficiencies in a Fiscal Corrective Action Plan (FCAP).

The Group Home provided the attached FCAP. However, the FCAP did not sufficiently address all of the findings noted in this report and the Group Home terminated its contract for convenience, as of December 1, 2014. CAD will issue a notice to the former contractor of its intent to place the contractor in the Contractor Alert Reporting Database (CARD). CAD will also refer the former contractor to the Auditor-Controller for follow up review, as appropriate.

A copy of this compliance report has been sent to the Auditor-Controller.

If you have any questions, your staff may contact me or Aldo Marin, Board Relations Manager, at (213) 351-5530.

PLB:EM:LTI
DLF:KO:agm

Attachment

c: Sachi A. Hamai, Interim Chief Executive Officer
John Naimo, Auditor-Controller
Carolyn C. Ruffin, Pennacle Foundation Inc.
Jerry E. Powers, Chief Probation Officer
Public Information Office
Audit Committee
Sybil Brand Commission
Leonora Scott, Regional Manager, Community Care Licensing Division
Lajuannah Hills, Regional Manager, Community Care Licensing Division

PENNACLE FOUNDATION, INC.
FISCAL COMPLIANCE ASSESSMENT REVIEW
REVIEW PERIOD 2014-2015

SCOPE OF REVIEW

The Fiscal Compliance Assessment included a review of the Pennacle Foundation Inc. (the Group Home) financial records such as financial statements, bank statements, check register, and personnel files. The review was conducted to determine the Group Home's compliance with the terms, conditions, and requirements of the Group Home contract, the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) and other applicable federal, State, and County regulations and guidelines.

The on-site Fiscal Compliance Assessment review focused on five key areas of internal controls:

- Financial Overview,
- Loans, Advances and Investments,
- Board of Directors and Business Influence,
- Cash/Expenditures, and
- Payroll and Personnel

The Group Home was in full compliance with 3 of 5 areas of the Fiscal Compliance Assessment: Loans, Advances and Investments; Board of Directors and Business Influence; Payroll and Personnel.

FISCAL COMPLIANCE

CAD found the following areas out of compliance.

Financial Overview

- The Group Home did not submit Semi-Annual Expenditure Reports for the years of 2012, 2013, and 2014.

- The Group Home obtained a loan from the Group Home's Executive Director and did not provide the amount of the loan or a loan agreement. The estimated loan amount is $143,070.

- The Group Home has unpaid payroll taxes in the amount of $35,019 for salaries paid during the period of February 15, 2014 to August 15, 2014.

Recommendations

The Agency management shall ensure that:

1. The Semi-annual Expenditure Report, along with the Group Home Cost Report, is submitted no later than September 1, 2015 for the period ending June 30, 2015 and by March 1, 2015 for the semi-annual report for the period ending December 31, 2014.

2. All loans to the Group Home by employees and/or related parties shall be supported by a written loan agreement and records documenting that the loaned funds were deposited into an Agency bank account.

3. The Group Home meets its obligation to pay its outstanding payroll taxes and ensure that payroll tax obligations are met going forward.

Cash/Expenditures

- The bank reconciliations for January through June 2014 showed outstanding items for longer than six months.

Recommendation

The Agency management shall ensure that:

4. Reconciled items are resolved timely.

MOST RECENT FISCAL REVIEW CONDUCTED BY THE AUDITOR-CONTROLLER

The most recent fiscal review of the Agency was posted by the Auditor-Controller on July 11, 2013.

NEXT FISCAL COMPLIANCE ASSESSMENT

The Pennacle Foundation has terminated its contract for convenience, as of December 1, 2014.

March 4, 2015

Ali Gomaa-Mersal
Fiscal Compliance Administrator
Los Angeles County
Department of children and Family Services
3530 Wilshire Blvd. 4th Floor
Los Angeles, CA 90010

Mr. Gomaa-Mersal,

The following is Pennacle Foundation's detail Fiscal Corrective Action Plan (FCAP) in response to the Fiscal Compliance Assessment conducted 8/19/2014-9/12/2014.

- ***FCAP to Question No. 4***

The unaudited financial statement indicated that the Contractor had negative net assets in the amount of $99,990 and loss from operation in the amount of $118,170 for the period ending June 30, 2014.

FFA and GH contract agreements, Part II (Standard Terms and Conditions) Paragraph 21 (Events of Default), states in part, "County may terminate this Contract for default for insolvency in the event that Contractor ceases to pay its debts in the ordinary course of business or cannot pay its debts as they become due, whether it had filed bankruptcy or not, and whether insolvent within the meaning of the Federal Bankruptcy Law or not."

Please submit a Fiscal Corrective Action Plan (FCAP) to address the above finding.

At the time the DCFS audit was conducted, the unaudited financial statements were incomplete. The agency was in the process of having all of the 2014 accounting transactions reviewed for accuracy and needed corrections. In May of 2014 the Board of Directors directed the Fiscal Manager to work with the CPA firm to reconcile and correct any recording discrepancies for 2013 and 2014. The board has approved the contracting of a local accounting firm to work with the Fiscal Manager to improve accounting protocols and procedures.

- ***FCAP to Question #6***
  Please submit a Fiscal Corrective Action Plan (FCAP) that details how the agency's Board of Directors plans to comply with the Group Home contract requirement to timely submit its Semi Annual Expenditure reports.

The Board of Directors of Pennacle Foundation determined that in order for better oversight ensuring that the agency adheres to all terms and agreement of the Group Home Contact, that the agency current fiscal operations be re-organized. An accounting firm will be contracted to evaluate and redesign the accounting protocols and practices of the agency. The new protocols and practices will be according to the generally accepted accounting principles (GAAP) and the fiscal requirements as detailed in the Accounting Controller's (A.C.) handbook.

In addition to the Executive Director the Fiscal manager has the responsibility to monitor and ensure that all fiscal reports to every regulatory agency will be submitted within the require timeframe. The Board of Director will hold these two positions accountable for the reports.

Specific due dates will be documented and reported to the officers of the Board when the task is completed. In addition a quarterly summation will be submitted at the quarterly board meeting.

- **FCAP to Finding from Question #9**
  A-C Handbook Section A.3.2 states, "Loans to the CONTRACTOR by employees and/or related parties shall be supported by a written loan agreement and records documenting that the lent funds were deposited into a CONTRACTOR bank account."
  Please submit a Fiscal Corrective Action Plan (FCAP) to address the above finding.

The Board of Directors of Pennacle Foundation has reviewed and discussed the A-C handbook Section A.3.2. Whereas loans may in the past must be supported by a properly documented agreement and recorded receipts of the funds deposited into the agency account. It was resolved that the Fiscal Manager's duty is to ensure that all loans made to the agency have a loan agreement that stipulates the terms of the loan and a board resolution approving the loan.

All current and future loans if applicable will be updated to the board in the quarterly meeting and documented in the Board minutes.

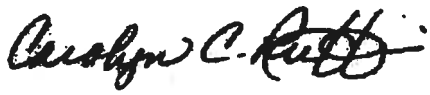
- **<u>FCAP to Finding from question #10</u>**
  Pursuant to Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) Part A (Accounting and Financial Reporting) Paragraph 2.6 (Payroll Register), "CONTRACTOR will ensure compliance with all applicable federal and State requirements for withholding payroll taxes (e.g., FIT, FICA, FUTA, SIT, SIU, etc.), reporting, filing (e.g., 941, DE-7, W-2, W-4 and 1099s), and all applicable tax deposits
  Please submit a Fiscal Corrective Action Plan (FCAP) to address the above finding.

The Board has directed the Fiscal manager to work with the IRS to resolve this matter. And to make sure that all required filings and deposits are made on or before deadlines. a The entire board will work to allocate the needed funds to the agency so that the payment terms accepted by the Federal and State agencies can be met. The Fiscal Manager will submit updates to the Board in regards to resolutions and the updated will be included in the Board Minutes.

- **<u>FCAP to finding from Question #25</u>**
  A-C Handbook Section B.1.4. states, "Reconciling items should be resolved timely."
  Please submit a FCAP to address the above finding.

The Board of Director have determined that in order to ensure that bank reconciliations are resolved according to the A-C Handbook Section B.1.4. The Board has mandated that all financial reconciliations be closed and finalized no later than 30 days after the closing period. In addition, the Fiscal manager was instructed to research all outstanding items to determine if the item should be voided and reissued or voided completely. The Fiscal manager will submit a status report monthly to the Treasurer. In addition, a quarterly report will be reviewed by all member and documented in the quarterly board minutes.

Respectfully Submitted,



Carolyn C. Ruffin
Executive Director
Pennacle Foundation, Inc.
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