COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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JOHN NAIMO
AUDITOR-CONTROLLER

November 23, 2015

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

FROM: John Naimo
Auditor-Controller

SUBJECT: **FAMILIES UNITING FAMILIES – A DEPARTMENT OF CHILDREN AND FAMILY SERVICES FOSTER FAMILY AGENCY CONTRACT PROVIDER – FISCAL COMPLIANCE REVIEW**

We completed a fiscal compliance review of Families Uniting Families (Families or Agency), which included a sample of transactions from July 2013 through October 2014. The Department of Children and Family Services (DCFS) contracts with Families to provide Foster Family Agency (FFA) services to recruit, certify, train, and support foster family homes.

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

DCFS paid Families approximately $1.4 million from July 2013 through October 2014 on a fee-for-service basis between $1,714 and $1,995 per child per month. Families paid $699,406 directly to the foster parents, which meets or exceeds the State's minimum requirement. Families' office is located in the Fourth Supervisorial District.

Results of Review

Families recorded and deposited DCFS cash receipts timely and ensured that fixed assets and equipment purchased with FFA Program funds are used for the FFA Program. However, the Agency did not always comply with their County contract requirements. Specifically, Families:

- Inappropriately allocated 100% of the shared costs reviewed, totaling $25,504, instead of allocating them to each of the benefiting programs or activities.

  Families' attached response indicates that they will reallocate allowable shared expenditures using an equitable basis that is supported with documentation.

- Did not maintain a written Cost Allocation Plan (Plan) as required by their County contract.

  Families' attached response indicates that they will develop a written Plan and note all revenues and expenditures for each Program activity.

- Did not ensure electronic devices that contain confidential and Personal Identifiable Information have encryption software to prevent unauthorized access and use.

  Families' attached response indicates that they will upgrade all computers to ensure that their data is encrypted and protected.

In addition, we identified areas where the Agency could strengthen their internal controls over bank reconciliations, disbursements, payroll and personnel records, and Semi-Annual Expenditure Reports. Details of our review, along with recommendations for corrective action, are discussed in Attachment I.

Review of Report

We shared our report with Families and DCFS on August 26, 2015. The Agency's Fiscal Corrective Action Plan (FCAP) that was approved by DCFS (Attachment II) indicates the Agency agrees with our findings and recommendations. DCFS management will conduct a review of the Agency's implementation of their corrective action plan within 90 days of the approved FCAP.

We thank Families management and staff 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.

JN:AB:DC:AA:meb

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Philip L. Browning, Director, DCFS
Joseph Kelly, Treasurer and Tax Collector
James M. Schrage, M.S.W., President and Executive Director, Families
Board of Directors, Families
B. Ray Thomas, Manager, Program/Provisional Unit, California Department of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

FAMILIES UNITING FAMILIES
FOSTER FAMILY AGENCY CONTRACT PROVIDER
FISCAL COMPLIANCE REVIEW
JULY 2013 THROUGH OCTOBER 2014

CASH/REVENUE

Objective

Determine whether Families Uniting Families (Families or Agency) properly recorded revenue in their financial records, deposited cash receipts into their bank account timely, and if bank reconciliations were prepared, and reviewed and approved by Agency management timely.

Verification

We interviewed Agency personnel, and reviewed their financial records and October 2014 bank reconciliations for four of their five bank accounts.

Results

Families properly recorded revenue in their financial records and deposited Department of Children and Family Services (DCFS) cash receipts timely. However, Families did not complete their October 2014 bank reconciliation for one of their five bank accounts reviewed, and the bank reconciliations completed were not signed by the preparer or dated by the preparer and reviewer as required by the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) Section B.1.4.

Recommendation

1. **Families Uniting Families management ensure reconciliations are prepared within 30 days of the bank statement date for each bank account, are signed by the preparer, and dated by the preparer and reviewer.**

COST ALLOCATION PLAN/EXPENDITURES

Objective

Determine whether Families' Cost Allocation Plan (Plan) complied with their County contract, and if expenditures charged to the Foster Family Agency (FFA) Program were allowable, properly documented, and appropriately allocated.

Verification

We interviewed Agency personnel, and reviewed their Plan and financial records for 30 non-payroll expenditures, totaling $33,952, charged to the FFA Program from July 2013 through June 2014.

Results

During the review period, Families conducted fundraising activities and received funding from DCFS and another county. However, Families did not maintain a written Plan as required by their County contract, and their accounting records did not separate the revenues and expenditures attributed to each program/activity as required by the A-C Handbook Section A.2. We also noted that Families:

- Inappropriately allocated 100% of the shared costs, totaling $25,504, instead of allocating them to each of the benefiting programs or activities as required by the Office of Management and Budget Circular A-122 (OMB A-122) Attachment A, Section D and the A-C Handbook Section C.2.

- Did not require a Board member to co-sign payments to the Executive Director (ED), who is also a check signer, as required by the A-C Handbook Section B.2.1. We noted eight (27%) of the 30 non-payroll expenditures reviewed, totaling $6,377, were reimbursements to the ED for Agency expenditures. While the expenditures were adequately documented, the Agency should require a second signature on all checks from someone independent from the transaction, and at a higher level.

Recommendations

Families Uniting Families management:

2. **Maintain accounting records with separate revenues and expenditures for each program/activity.**

3. **Develop a written Cost Allocation Plan and reallocate allowable shared expenditures using an equitable basis that is supported with documentation.**

4. **Require a second signature on all checks from someone independent from the transaction, and at a higher level.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Families' fixed assets and equipment purchased with FFA Program funds were used for the Program and adequately safeguarded.

Verification

We interviewed Agency personnel, and reviewed their fixed assets and equipment inventory list. We also performed a physical inventory of six items purchased with FFA Program funds to verify the items exist and were being used for the FFA Program.

Results

Families adequately safeguarded and used the items reviewed for the FFA Program.

Recommendation

None.

PAYROLL AND PERSONNEL

Objective

Determine whether Families maintained personnel files, and if payroll expenditures charged to the FFA Program were allowable, properly documented, and appropriately allocated.

Verification

We compared the payroll costs for five employees, totaling $10,141 for June 2014, to the Agency's payroll records and time reports. We also interviewed staff and reviewed personnel files.

Results

Families maintained personnel files as required and generally charged and maintained documentation to support the payroll expenditures reviewed.

Recommendation

None.

ADMINISTRATIVE CONTROLS

Objective

Determine whether Families was in compliance with their County contract and maintained encryption software to protect confidential and Personal Identifiable Information (PII).

Verification

We interviewed Agency personnel, and reviewed their policies and procedures.

Results

Families' electronic devices did not have encryption software as required by the A-C Handbook Section A.3.0. Families should ensure their electronic devices that contain confidential and PII have encryption software to prevent unauthorized access and use.

Recommendation

5. **Families Uniting Families management ensure electronic devices that contain confidential and Personal Identifiable Information have encryption software to prevent unauthorized access and use.**

SEMI-ANNUAL EXPENDITURE REPORT

Objective

Determine whether Families' January through June 2014 Semi-Annual Expenditure Report (SAER) reconciled to their financial records and whether the Agency had any unspent revenue.

Verification

We interviewed Agency personnel, and compared their January through June 2014 SAER to their financial records.

Results

Families' January through June 2014 SAER did not reconcile to their financial records. As noted above, Families conducted fundraising activities and received funding from DCFS and another county during the review period. However, Families' accounting records did not separate the revenues and expenditures attributed to each program/activity as required. In addition, the SAER inappropriately included expenditures for foster care services provided to another county, inappropriately reported overpayments as expenditures, and did not include the total accumulated unspent revenue retained since September 2003 as required by their County contract Part I, Section 25.6. As a result, the Agency needs to revise their financial records based on our recommendations in this report, and provide DCFS with revised SAERs for Fiscal Year 2013-14 and a plan of how they will utilize unspent revenue, if applicable.

Recommendations

Refer to Recommendations 2 and 3.

Families Uniting Families management ensure:

6. **Semi-Annual Expenditure Reports include expenses for Los Angeles County placed youth only and provide the Department of Children and Family Services revised Semi-Annual Expenditure Reports for Fiscal Year 2013-14 based on our recommendations above and a plan of how they will utilize unspent revenue, if applicable.**

7. **The revised Semi-Annual Expenditure Reports include the total accumulated unspent revenue the Agency retained since September 2003 as required by their County contract.**

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

PHILIP L. BROWNING
Director

October 8, 2015

James Schrage, Executive Director
Families Uniting Families
525 E. 7th St., Suite 103
Long Beach, CA 90813

Dear Mr. Schrage:

FAMILIES UNITING FAMILIES – A DEPARTMENT OF CHILDREN AND FAMILY SERVICES FOSTER FAMILY AGENCY CONTRACT PROVIDER – FISCAL COMPLIANCE REVIEW

We have reviewed your fiscal corrective action plan (FCAP) in response to the Auditor Controller's fiscal audit report for the period of July 2013 through October 2014. The FCAP fully addresses the audit report seven (7) recommendations (see Attachment III).

Additionally, Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

If you have any questions, please contact Ali Gomaa-Mersal, Financial Specialist IV, at (213) 351-0182.

Sincerely,

Ali Gomaa – Mersal for

Kristine Ovsepyan, ASM II
Fiscal Compliance Unit

Attachments
c: Aggie Alonso, Chief Accountant-Auditor (via electronic mail only)
Rhonda David-Shirley, CSA III (via electronic mail only)

FAMILIES UNITING FAMILIES – A DEPARTMENT OF CHILDREN AND FAMILY SERVICES FOSTER FAMILY AGENCY CONTRACT PROVIDER – FISCAL COMPLIANCE REVIEW

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 9/28/15, submitted by Families Uniting Families, status of each recommendation is summarized as follows:

- 7 Recommendations (1 - 7) were fully addressed.
- __ Recommendations (______) were partially addressed.
- __ Recommendations (______) directed to the Department were addressed.

Recommendation Status

1. **Families Uniting Families management ensure reconciliations are prepared within 30 days of the bank statement date for each bank account, and are signed by the preparer and dated by the preparer and reviewer.**

   Agency Proposed FCAP: By 10/31/2015, each reconciliation will be prepared within 30 days of the bank statement date for all accounts. These will be signed & dated by the preparer and signed & dated by the reviewer.

   DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

2. **Families Uniting Families management maintain accounting records with separate revenues and expenditures for each program/activity.**

   Agency Proposed FCAP: By 10/31/2015, all revenues and expenditures will be noted for each activity.

   DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

3. **Families Uniting Families management develop a written Cost Allocation Plan and reallocate allowable shared expenditures using an equitable basis that is supported with documentation.**

   Agency Proposed FCAP: Families Uniting families will develop a written Cost Allocation Plan and reallocate allowable shared expenditures using an equitable basis that is supported with documentation. Additional steps have been taken to ensure that income and expenditures have been allocated in Families Uniting Families' accounting records.

DCFS Response: Please submit a copy of the cost allocation plan to the Fiscal Compliance Unit by November 16, 2015. Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

4. **Families Uniting Families management require a second signature on all checks from someone independent from the transactions, and at a higher level.**

   Agency Proposed FCAP: By 10/31/2015 all checks requiring a reimbursement to executive director will be signed by a Families Uniting Families board member (or equivalent).

   DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

5. **Families Uniting Families management ensure electronic devices that contain confidential and Personal Identifiable Information have encryption software to prevent unauthorized access and use.**

   Agency Proposed FCAP: By November 15, 2015, Families Uniting Families will upgrade all computers to Win 7, One Drive, and Microsoft Office 365 Nonprofit edition. This measure will be taken to ensure that our data is encrypted and protected to LA County standards.

   DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

6. **Families Uniting Families management ensure Semi-Annual Expenditure Reports include expenses for Los Angeles County placed youth only and provide the Department of Children and Family Services revised Semi-Annual Reports for Fiscal Year 2013-14 based on the recommendations above, and a plan of how they will utilize the unspent revenue, if applicable**

   Agency Proposed FCAP: By 10/31/2015, Families Uniting Families (FUF) will ensure the SAERs include expenses for Los Angeles County placed youths only and provide DCFS revised SAERs for 2013-14 based upon the recommendations above, and a plan on how to utilize the unspent revenue, if applicable.

   DCFS Response: Please submit a copy of the revised SAERs for FY 2013-14 to the Fiscal Compliance Unit by November 16, 2015. Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

7. **Families Uniting Families management ensure the revised Semi-Annual Expenditure Reports include the total accumulated unspent revenue the Agency retained since September 2003 as required by their contract.**

   Agency Proposed FCAP: Families Uniting Families will revise all of the prior SAERs to include any accumulated unspent revenue.

   DCFS Response: Please submit a copy of the revised SAERs to the Fiscal Compliance Unit by November 16, 2015. Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.