



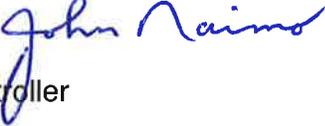
JOHN NAIMO
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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September 9, 2016

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

FROM: John Naimo 
Auditor-Controller

SUBJECT: **CHILDNET YOUTH AND FAMILY SERVICES, INC. – A DEPARTMENT OF CHILDREN AND FAMILY SERVICES PROGRAMS PROVIDER – FISCAL COMPLIANCE REVIEW**

We completed a fiscal compliance review of ChildNet Youth and Family Services, Inc. (ChildNet or Agency), which included a sample of transactions during July 2013 through December 2014. The Department of Children and Family Services (DCFS) contracts with ChildNet to provide Foster Family Agency (FFA), Intensive Treatment Foster Care (ITFC), and Wraparound Approach Services (Wraparound) Programs. FFA Program services include recruiting, certifying, training, and supporting foster family homes, whereas ITFC Program services provide therapeutic services to children that reside in certified foster family homes. The Wraparound Program provides services to children and their families such as therapy, housing, education, and social assistance.

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

Our review covered the FFA, Wraparound, and ITFC Program contracts with ChildNet, for which DCFS paid the Agency approximately \$3.4 million (FFA \$1,876,746, Wraparound \$1,236,363, and ITFC \$283,727) on a fee-for-service basis during July 2013 through December 2014. ChildNet provides services to residents from all Supervisorial Districts.

Results of Review

ChildNet recorded and deposited DCFS cash receipts timely and ensured that fixed assets and equipment purchased with DCFS Program funds were used for the DCFS Programs.

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However, the Agency did not always comply with the requirements of their County contracts. Specifically, ChildNet:

- Did not allocate indirect costs to all benefiting programs or functions in an equitable manner. Specifically, the Agency did not allocate indirect costs to their fundraising function. The Agency used units of service to allocate costs, a measure that does not result in an equitable distribution of costs to all benefiting programs and functions.
- Incorrectly allocated \$2,488 in shared costs to the Wraparound Program. The Agency used an appropriate cost allocation methodology; however, the allocated costs were not supported by the documentation provided. ChildNet subsequently reallocated some of the shared costs identified; however, ChildNet needs to reallocate all shared costs identified and ensure all allocated shared costs are supported with adequate documentation.

In addition, we identified areas where the Agency could strengthen their internal controls over bank reconciliations and encryption.

ChildNet's response, which is incorporated into DCFS' attached response, indicates that they have allocated indirect costs to the fundraising function using an allowable cost allocation methodology and have reallocated shared costs using adequate supporting documentation.

Details of our review, along with recommendations for corrective action, are attached (Attachment I).

Review of Report

We discussed our report with ChildNet and DCFS. ChildNet's Fiscal Corrective Action Plan (FCAP) that was approved by DCFS (Attachment II) indicates agreement with our findings and recommendations. DCFS management will conduct a review of the Agency's implementation of their FCAP within 90 days of the approved FCAP.

We thank ChildNet management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Aggie Alonso at (213) 253-0304.

JN:AB:PH:AA:meb

Attachments

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

**CHILDNET YOUTH AND FAMILY SERVICES, INC.
DEPARTMENT OF CHILDREN AND FAMILY SERVICES PROGRAMS
FISCAL COMPLIANCE REVIEW
JULY 2013 THROUGH DECEMBER 2014**

CASH/REVENUE

Objective

Determine whether ChildNet Youth and Family Services, Inc. (ChildNet or Agency) properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank reconciliations were prepared timely, and reviewed and approved by Agency management.

Verification

We interviewed ChildNet's management, and reviewed their financial records and December 2014 bank reconciliations for two bank accounts.

Results

ChildNet properly recorded revenue in their financial records, deposited their Department of Children and Family Services (DCFS) cash receipts into their bank account timely, and bank reconciliations were prepared timely, and reviewed and approved by Agency management. However, ChildNet did not resolve three outstanding items, totaling \$847, timely on one of their bank reconciliations as required by the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) Section B.1.4.

Recommendation

- 1. ChildNet Youth and Family Services, Inc. management ensure that outstanding items are resolved timely.**

COST ALLOCATION PLAN/EXPENDITURES

Objective

Determine whether ChildNet developed their Cost Allocation Plan (Plan) using an appropriate cost allocation methodology, and if expenditures charged to the DCFS Programs were allowable, properly documented, and appropriately allocated.

Verification

We interviewed ChildNet's personnel, and reviewed their Plan and financial records for 15 non-payroll expenditures, totaling \$28,187, that the Agency charged to the DCFS Programs during July 2013 through December 2014.

Results

ChildNet did not allocate indirect costs to all benefiting programs or functions in an equitable manner. Specifically, the Agency did not allocate indirect costs to their fundraising function. The Agency used units of service to allocate costs, a measure that does not result in an equitable distribution of costs to all benefiting programs and functions.

In addition, the Agency incorrectly allocated \$2,488 in shared costs to the Wraparound Approach Services (Wraparound) Program. The Agency used an appropriate cost allocation methodology; however, the allocated costs were not supported by the documentation provided. ChildNet subsequently reallocated some of the shared costs identified; however, ChildNet needs to reallocate all shared costs identified and ensure all allocated shared costs are supported with adequate documentation.

Recommendation

- 2. ChildNet Youth and Family Services, Inc. management reallocate indirect and shared costs to all benefiting programs and functions using an equitable method and ensure all allocated costs are supported with adequate documentation.**

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether ChildNet's fixed assets and equipment purchased with DCFS Program funds were used for the appropriate Programs and adequately safeguarded.

Verification

We interviewed ChildNet's personnel, and reviewed their fixed assets and equipment inventory list. We also performed a physical inventory of two items purchased with DCFS Program funds to verify the items exist and were being used for the Programs.

Results

ChildNet used the two items reviewed for the appropriate Programs and the items were adequately safeguarded.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether ChildNet maintained personnel files as required and charged payroll expenditures to the DCFS Programs that were allowable, properly documented, and appropriately allocated.

Verification

We interviewed employees, and reviewed personnel files for five employees. We also compared the payroll expenditures for the five employees, totaling \$13,143 for December 2014, to the Agency's payroll records and time reports.

Results

ChildNet maintained their personnel files as required. However, as noted in the Cost Allocation Plan/Expenditures section, ChildNet did not allocate indirect payroll costs to all benefiting programs or functions in an equitable manner. As a result, the Agency needs to reallocate indirect payroll costs to all benefiting programs and functions using an appropriate cost allocation methodology.

Recommendation

Refer to Recommendation 2.

ENCRYPTION CONTROLS**Objective**

Determine whether ChildNet maintained encryption software to protect confidential and Personally Identifiable Information (PII).

Verification

We interviewed Agency personnel, and reviewed their policies and procedures to ensure they had encryption software that was enabled to prevent unauthorized access and use.

Results

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

Recommendation

- 3. ChildNet Youth and Family Services, Inc. management ensure electronic devices that contain confidential and Personally Identifiable Information have encryption software to prevent unauthorized access and use.**

COST REPORTS**Objective**

Determine whether ChildNet's Fiscal Year (FY) 2013-14 Cost Reports reconciled to their financial records and whether ChildNet had any unspent revenue.

Verification

We compared ChildNet's FY 2013-14 Cost Reports to their financial records.

Results

ChildNet's Foster Family Agency (FFA), Intensive Treatment Foster Care (ITFC), and Wraparound Programs Cost Reports reconciled to their financial records. However, we could not determine if ChildNet had any unspent revenue that was required to be returned to DCFS or reinvested in the Programs under review. As previously noted, ChildNet did not allocate indirect payroll costs to all benefiting programs or functions in an equitable manner, and incorrectly allocated some shared expenditures. As a result, ChildNet needs to reallocate indirect and shared costs based on Recommendation 2, and provide DCFS revised Cost Reports. ChildNet should return any unspent Wraparound Program revenue to DCFS and submit a plan on how they will utilize any unspent FFA and ITFC Programs revenue, if applicable.

Recommendations

Refer to Recommendation 2.

- 4. ChildNet Youth and Family Services, Inc. management reallocate indirect and shared costs based on the recommendations above, and provide the Department of Children and Family Services revised Cost Reports and return any unspent Wraparound Approach Services Program revenue and provide a plan on how they will utilize any**

unspent Foster Family Agency and Intensive Treatment Foster Care Programs revenue, if applicable.



PHILIP L. BROWNING
Director

BRANDON NICHOLS
Chief Deputy Director

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

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Fourth District
MICHAEL D. ANTONOVICH
Fifth District

July 29, 2016

Kathy Hughes, President/Chief Executive Officer
ChildNet Youth and Family Services, Inc.
4155 Outer Traffic Circle
Long Beach, CA 90804

Dear Ms. Hughes:

CHILDNET YOUTH AND FAMILY SERVICES, INC. – A DEPARTMENT OF CHILDREN AND FAMILY SERVICES 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 December 2014. The FCAP fully addresses the audit report four recommendations.

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, Interim Division Chief (via electronic mail only)
Rhonda David-Shirley, CSA III (via electronic mail only)

**CHILDNET YOUTH AND FAMILY SERVICES, INC. – A DEPARTMENT OF
CHILDREN AND FAMILY SERVICES 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 revised FCAP submitted by ChildNet Youth and Family Services, Inc., on 7/25/16, status of each recommendation is summarized as follows:

- 4 Recommendations (1-4) were fully addressed.
- ___ Recommendations (_____) were partially addressed.
- ___ Recommendations (_____) directed to the Department were addressed.

Recommendation Status

1. **ChildNet Youth and Family Services, Inc. management ensure that outstanding items are resolved timely.**

Agency Proposed FCAP: ChildNet policy 5.1 effective 7/1/2016. The LA County Auditor found 3 individual checks in the amount of \$1, \$381, and \$465 that were still outstanding beyond 180 days. Our policy has been to contact the payee every 90 days and remind them to cash their checks. We have subsequently created a new policy where we will automatically void any check that is 180 days outstanding and re-issue a new check.

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

2. **ChildNet Youth and Family Services Inc. management re-allocate indirect and shared costs to all benefitting programs and functions using an equitable method and ensure all allocated costs are supported with adequate documentation.**

Agency Proposed FCAP: The LA County Auditor found that we did not allocate our indirect costs to our Development cost center. We did not charge our Development cost center a pro-rata share of indirect costs due to the de-minimus amount (there was little activity due to a leave of absence). However, we have corrected this and have allocated indirect costs to Development using direct salaries, which is an acceptable method per A-122 regulations.

The LA County Auditor found two invoices expensed to the DCFS Wraparound program that were allocated incorrectly. We have since corrected our procedures to ensure we allocate expenses in the same time frame as the invoice, and that the correct backup documentation is attached to the invoice.

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

- 3. ChildNet Youth and Family Services, Inc. management ensure electronic devices that contain confidential and Personal Identifiable Information have encryption software to prevent unauthorized access and use.**

Agency Proposed FCAP: As of 7/14/2016 ChildNet has implemented full disk encryption on all workstation devices within the organization.

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

- 4. ChildNet Youth and Family Services, Inc. management re-allocate indirect and shared costs based on the recommendations above, and provide the Department of Children and Family Services revised Cost Reports and return unspent WRAP revenue and provide a plan of how they will utilize unspent Foster Family Agency and Intensive Treatment Foster Care revenue, if applicable.**

Agency Proposed FCAP: On 7/1/2016 we revised the following: The Wraparound Expenditure Report for 2013-14, the Semi-Annual Foster Care Report/The Semi-Annual Intensive Foster Care Report for periods of: 01/01/2014 - 06/30/2014, 07/01/2014 - 12/31/2014, and 01/01/2015 - 06/30/2015.

For the audit period we have revised the DCFS Wraparound Program cost report. Although our expenses decreased slightly, the Total Surplus is still only 7.78% of total Operating Costs, and remains under the 10% of costs as required by the contract. Therefore, unspent funds is non-applicable.

For the audit period we revised the DCFS Semi-Annual Foster Care/Intensive Foster Care Expenditure Reports. The new corrected DCFS Semi-Annual Foster Care/Intensive Foster Care Expenditure reports continue to remain with a net combined loss for each relevant period on both Foster Care and Intensive Foster Care. Therefore there are no applicable unspent funds.

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