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March 5, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: J. Tyler McCauley
Auditor-Controller

Subject: **FISCAL REVIEW OF CHARTER HOUSE GROUP HOME - A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our audit report on Charter House Group Home (Charter) fiscal operations for the period of July 1, 2000 through June 30, 2001. Charter is currently licensed to operate one group home with a resident capacity of six children. Charter is located in the Second Supervisorial District.

The Department of Children and Family Services (DCFS) contracts with Charter to provide the basic needs and services for foster care children placed in the Agency's care. Under the provisions of the contract, DCFS pays Charter a monthly rate per child, based on a rate classification level determined by the California State Department of Social Services (CDSS). Based on the child's age, Charter receives a monthly rate of $3,711 to $3,912 per child. During the period of our review, Charter received $269,197 in foster care funds from DCFS.

Scope

The purpose of our review was to determine whether Charter appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing necessary care and services to children placed in the Agency's care. We also evaluated the adequacy of Charter's accounting records, internal controls and compliance with the Contract and applicable federal, State and County fiscal guidelines governing the disbursement of group home foster care funds.

Summary of Findings

Our review disclosed a total of $33,731 in questioned costs. This amount consists of $19,432 in unsupported and inadequately supported costs for items such as groceries, hardware, outings, repayments to employees, IRS payments, gasoline, allowances, postage and freight, mileage and travel, personal and incidental expenses, vehicle leases and payments to independent contractors. The remaining $14,299 in questioned costs is related to payments for building maintenance and repairs and insurance that were the responsibility of the lessor, interest and penalty payments, payments to the Agency's Executive Director for personal items, and a payment made on behalf of the "Community Development Department" for office supplies, carpet/flooring, electronic equipment and building supplies.

We also noted several areas in which Charter needs to strengthen its internal controls. These areas include disbursement/accounting and revenue procedures, payroll and personnel expenditures, bank reconciliations, payments to independent contractors and insurance coverage. These deficiencies contributed to the questioned costs discussed above. Details of our findings are discussed in the attached report.

Review of Report

We discussed our report with Charter management on March 4, 2003. Charter management has agreed to provide DCFS with a written response and corrective action plan within 30 days. In addition, DCFS has agreed to provide the Board with a written response within 60 days, outlining the resolution of all the findings and questioned costs contained in our report.

We thank Charter management and staff for their cooperation during our review.

JTM:DR:MM
Attachment

c: David E. Janssen, Chief Administrative Officer
Lloyd W. Pellman, County Counsel
Department of Children and Family Services
Marjorie Kelly, Interim Director
Genevra Gilden, Chief, Quality Assurance Division
Charter House Group Home
Irene Matlock, Executive Director
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audits Bureau
Violet Varona-Lukens, Board of Supervisors Executive Office
Public Information Office
Audit Committee Members
Commission for Children and Families

CHARTER HOUSE GROUP HOME
FISCAL AUDIT OF GROUP HOME FOSTER CARE CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) contracts with Charter House Group Home (Charter or Agency) to provide the basic needs and services for foster care children placed in the Agency's care. Charter is licensed to operate one group home with a capacity of six children. The Agency is located in the Second Supervisorial District.

Under the provisions of the contract, the County pays Charter a monthly rate for each child based on rate classification levels determined by the California Department of Social Services (CDSS). During our review period, July 1, 2000 through June 30, 2001, Charter received a monthly rate of $3,711 to $3,912 per child. During this period, the Agency received $269,197 in foster care funds from DCFS.

SCOPE

The purpose of our review was to ensure that Charter has complied with the contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of Charter's accounting records, internal controls, and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of FFA foster care funds.

APPLICABLE REGULATIONS AND GUIDELINES

Charter House Group Home is required to operate its group home in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- Group Home Foster Care Contract (Contract), including Exhibit F, 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).
- California Department of Social Services Manual of Policies and Procedures (CDSS MPP).
- California Code of Regulations, Title 22 (Title 22).

QUESTIONED COSTS

Our review disclosed a total of $33,731 in questioned costs. Details of these costs are discussed below.

Unsupported/Inadequately Supported Costs

A-C Handbook states that original vouchers, invoices, receipts, or other documentation shall support all revenues and expenditures. Unsupported expenditures will be disallowed on audit. We identified $19,432 in group home expenditures that were either not supported or the support provided was inadequate.

- $6,899 in payments for items including groceries, hardware, outings, repayments to employees and IRS payments. The payments were not supported by documentation such as itemized receipts, the name of the person for whom the expenditure was incurred or the purpose of the expenditure.

- $6,805 for gasoline for the Agency's vehicle, a 1992 Dodge Caravan. The Agency did not maintain travel logs to support the charges or to substantiate that the costs were incurred for the benefit of the group home children. A-C Handbook, Section 3.014, requires agencies to maintain vehicle mileage logs showing dates, destination and headquarters, purposes of trips and mileage driven.

- $2,957 in payments to reimburse the Executive Director for items such as allowances, supervised activities, postage and freight, mileage and travel, personal and incidental expenses, child transportation and vehicle lease for which the Agency was unable to provide a supporting invoice or receipt.

- $1,467 in payments for which Charter was unable to provide itemized receipts. These expenditures included clothing, a restaurant bill and a muffler for the Agency's vehicle.

- $1,304 in payments to independent contractors for which Charter did not provide invoices identifying work performed, hours worked and rate charged for our review. Charter did not have a current agreement with two of its four contractors.

UNALLOWABLE COSTS

We identified $14,299 in unallowable group home expenditures. Listed below are the details of these expenditures.

Building Maintenance and Insurance

$12,055 in payments to vendors for building maintenance/repairs and insurance. The building is owned by Charter's Executive Director and Assistant Executive Director and is leased back to the Agency. The Agency's lease is silent as to who is responsible for these expenditures. Generally, these types of expenditures are the responsibility of the

lessor. Since the lease is silent as to which party is responsible for these expense items, it cannot be assumed that such expenses would be paid by the lessee.

Interest and Penalties

Charter used group home funds totaling $1,016 for penalty and interest payments. This cost consists of $219 in penalties and interest paid to the Internal Revenue Services for late tax payments, a $40 late charge on building insurance, $115 in finance charges paid on its Chevron Statements and $642 in bank charges for checks written against non-sufficient funds (NSF) as of June 30, 2001. According to the Circular, fines and penalties resulting from violations of federal, State, and local laws and regulations are not allowable.

Personal Expenditures

Charter used group home funds on unallowable personal costs totaling $1,228. These costs consist of $451 in reimbursement payments to the Executive Director for miscellaneous items such as cigarettes and wine, and a $777 payment to the "Community Development Department" for items such as office supplies, carpet/flooring, electronic equipment and building supplies.

Recommendations

1. **DCFS management resolve the $33,731 in questioned costs and, if appropriate, collect any disallowed amounts.**

Charter management:

2. **Maintain adequate supporting documentation for all group home expenditures, including original itemized receipts.**

3. **Ensure that group home funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the group home.**

4. **Maintain detailed vehicle mileage logs for all Agency vehicles.**

5. **Develop and maintain contracts for all Agency independent contractors.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

Our audit disclosed several contract compliance issues and internal control weaknesses. We believe the deficiencies, which are discussed below, may have contributed the questioned costs noted in our audit. DCFS needs to monitor Charter to ensure that its management takes corrective actions to address each of the recommendations in the remainder of this report.

Revenue Procedures

The Agency does not maintain an accounts receivable ledger to record/monitor payments received from DCFS. As a result, the Agency was underpaid for two children and overpaid for one child, resulting in a net underpayment of $657.

Recommendations

6. **DCFS management resolve the $657 net underpayment to Charter.**

7. **Charter management maintain an accounts receivable ledger.**

Payroll/Personnel Controls

Charter's payroll and personnel procedures controls are not in compliance with the Circular, CDSS MPP, Title 22 and the A-C Handbook. Specifically, we sampled 17 timecards belonging to seven different employees and noted the following:

- Four (57%) of seven personnel files reviewed did not contain authorized salary amounts or hourly rates of pay approved by management. CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures including employee salary rates.

- The Agency could not locate one (6%) timecard. Of the remaining 16 timecards, 11 (69%) were not signed by the employees and seven were not signed by a supervisor as required by the A-C Handbook.

Without proper payroll and personnel controls in place, the Agency cannot ensure payroll expenditures are authorized or accurate.

Recommendations

Charter management:

8. **Ensure personnel files contain authorized salary amounts or hourly rates of pay approved by management.**

9. **Ensure employees sign their timecards and management documents their review and approval of the timecards in writing.**

Bank Reconciliations

Charter does not sign and date its bank reconciliations. Therefore, we were unable to determine whether the bank reconciliations were prepared timely and reviewed for appropriateness and accuracy. The lack of timely reconciliations may have led to the significant NSF charges noted above. A-C Handbook Section 4.011 states that monthly bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. Both the preparer and the reviewer should sign and date the bank reconciliations.

Recommendation

10. **Charter management ensure the Agency's bank account is reconciled timely and the reconciliations are signed and dated by both the preparer and the reviewer.**

Board of Directors

Section 5227 of the Corporations Code states that no more than 49% of the Board of Directors may be "interested persons." "Interested persons" include any director who has received payment for services rendered within the past 12 months whether as an employee (full or part time), independent contractor, or otherwise. If a director is related to anyone who has received payment from the corporation, that director may be an "interested person." There are six members on the Board of Directors according to the Agency's Board minutes. Of these six members, three are related. As a result, the Agency is in violation of the State of California Corporation Code Sections 5210 through 5215, which limit the Board of Directors' membership to no more than 49% interested persons.

Charter management needs to ensure that its Board is staffed in accordance with the California Corporations Code and in such a way as to allow them to function and make decisions objectively.

Recommendation

11. **Charter management ensure that its Board of Directors is comprised of no more than 49% interested persons.**

Insurance Coverage

Charter is required to maintain insurance coverage in accordance with Contract Section 22. We noted that Charter did not submit insurance confirmation to substantiate its possession of general, auto, professional and worker's compensation insurance.

Recommendation

12. **DCFS management take action to ensure Charter has insurance coverage as required by Contract Section 22.**