COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

March 9, 2006

TO: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF O'CONNER & ATKINS GROUP HOME – A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our audit report on O'Conner & Atkins Group Home (O'Conner) fiscal operations from January 1, 2003 through December 31, 2003. O'Conner is licensed to operate a group home with a resident capacity of eight children between the ages of five and seventeen. For calendar year 2003, O'Conner received a total of $302,666 in foster care funds from the Department of Children and Family Services (DCFS). O'Conner is located in the Second Supervisorial District.

Scope

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

Summary of Findings

We identified a total of $3,634 in questioned costs. O'Conner needs to strengthen its internal controls over its recording of employee vacation balances, coding expenses on

the general ledger, marking invoices paid, documenting Board meetings, reconciling bank accounts, maintaining payroll/personnel records, and reporting independent contractors' income. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the questioned costs and, if appropriate, collect all disallowed amounts. In addition, DCFS needs to ensure that O'Conner management takes appropriate corrective action to address the recommendations in this report and monitor to ensure that the corrective actions taken result in permanent changes.

Review of Report

Our audit findings and recommendations were discussed with O'Conner's management and a draft audit report was subsequently provided to the Agency. O'Conner's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (attached), indicates the Agency's general agreement with our findings and recommendations. We thank O'Conner's management and staff for their cooperation during our review.

Please call if you have any questions, or your staff may contact Jim Schneiderman at (626) 293-1101.

JTM:MO:JS:MM

Attachment

c: David E. Janssen, Chief Administrative Officer
Raymond G. Fortner, Jr., County Counsel
David Sanders, Ph.D., Director, Department of Children and Family Services
O'Conner & Atkins Group Home
Virginia O'Conner, Executive Director
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audit Bureau
Sheilah Dupuy, Chief, Foster Care Rates Bureau
Public Information Office
Audit Committee
Commission for Children and Families

O'CONNER & ATKINS GROUP HOME
FISCAL AUDIT OF GROUP HOME FOSTER CARE CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) contracts with O'Conner & Atkins Group Home (O'Conner) to provide the basic needs and services for foster care children placed in O'Conner's care. O'Conner is licensed to operate a group home with a resident capacity of eight children between the ages of five and seventeen. O'Conner is located in the Second Supervisorial District.

Under the contract, the County pays O'Conner a monthly rate for each child based on the Group Home Annual Rate determined by the California Department of Social Services (CDSS). Between January 1, 2003 and December 31, 2003, O'Conner received from DCFS a monthly rate of $3,723 per child placed in the group home, for a total of $302,666 in foster care funds.

APPLICABLE REGULATIONS AND GUIDELINES

O'Conner 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 review:

- Group Home Contract, including Exhibit C-1, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

REVIEW OF EXPENDITURES

We identified a total of $3,634 in unsupported/inadequately supported expenditures. Details of these expenditures are discussed below.

Unsupported/Inadequately Supported Expenditures

The A-C Handbook, Section A.3.2, states that all expenditures shall be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. The Handbook further states that all credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase.

We identified $3,634 in expenditures that were either not supported, or were inadequately supported. Specifically, we noted the following:

- $3,521 in unsupported and inadequately supported credit card charges. O'Conner used a Chase Freedom MasterCard and a Shell MasterCard, both of which were personal credit cards issued in the name of the Executive Director. We requested 11 separate credit card statements, along with the underlying supporting documentation. O'Conner was only able to provide two of the 11 credit card statements. O'Conner was unable to provide the other nine credit card statements, or any of the receipts to document the nature of the expenditures charged to the credit cards and whether they were related to the operation of the Group Home. O'Conner should discontinue the practice of using personal credit cards for these purchases and obtain credit cards issued in the name of the Agency.

- $113 in unsupported food expenditures for which O'Conner was unable to provide receipts.

Recommendations

1. **DCFS management resolve the $3,634 in questioned costs and if appropriate, collect any disallowed amounts.**

O'Conner management:

2. **Consistently maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

3. **Discontinue the practice of using personal credit cards to purchase goods and services for the Group Home, and obtain credit cards issued to the Group Home that are to be used exclusively for Group Home business.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several internal control weaknesses and contract compliance issues. DCFS should ensure that O'Conner management takes appropriate corrective actions to address each of the internal control and contract compliance recommendations in this report. DCFS should also monitor this contractor to ensure the corrective actions result in permanent changes.

Accounting and Disbursement Procedures

Employee Benefits Log

O'Conner does not maintain an employee benefits log to track employee vacation time earned and used. Section B.3.2 of the A-C Handbook states that records documenting employee benefit balances (e.g., sick time, vacation, personal time, etc.) should be maintained on at least a monthly basis. Benefit balances should be increased as hours are earned and decreased as hours are used.

Misclassification of Expenses

Section A.2.5 of the A-C Handbook requires that the contractor consistently post transactions that are of similar nature to the same account. A review of O'Conner's general ledger disclosed several transactions that had been misclassified. In one instance, O'Conner recorded credit card charges entirely as clothing and vehicle expenses, despite the fact that the credit card statement reflected charges for not only clothes and gasoline, but also for food, medicine and books. In another instance, O'Conner posted a portion of a payment to a contract Social Worker as a Commission Expense. O'Conner management should ensure that expenses of a similar nature are consistently posted to the same account.

Invoices Not Marked "Paid"

Section B.2.1 of the A-C Handbook states that all invoices and other supporting documentation shall be referenced to check numbers and marked "Paid" or otherwise cancelled to prevent reuse or duplicate payments. Of 22 transactions for which O'Conner was able to provide us with invoices or other supporting documentation, 19 (86%) were not marked "Paid", or otherwise cancelled. The supporting documentation for the same 19 transactions was also not cross-referenced to the check number.

Recommendations

O'Conner Management:

4. **Prepare and maintain a benefits log to track the employee benefits earned and used.**

5. **Ensure that expenses of a similar nature are consistently posted to the same general ledger account.**

6. **Ensure that supporting documentation is consistently marked "Paid" or otherwise cancelled to prevent reuse, and are cross-referenced to check numbers.**

Board Minutes

We reviewed the minutes from four of O' Conner's Board meetings held in 2003, and noted that the minutes only showed the date of the meeting, the members in attendance and the general topics discussed. There were no details of the discussion of individual topics, nor any details of decisions or actions taken by the Board. According to Health and Safety Code Section 1520.1(f), the minutes should contain enough information to establish a clear written record for future use. The primary purpose for keeping minutes is to document the actions of the Board, so the minutes can be used to defend those actions. Although the minutes do not need to be a word-for-word transcript, they must be an accurate summary of who was present, the date and time of the meeting, what was discussed, what decisions were made and the results of all votes taken. O'Conner should prepare and maintain Board minutes that comply with the requirements of Health and Safety Code Section 1520.1(f).

Recommendation

7. **O'Conner management prepare and maintain Board minutes in accordance with the Health and Safety Code Section 1520.1(f).**

Bank Reconciliations

The A-C Handbook, Section B.1.4, states that bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. O'Conner's bank reconciliations are prepared by a contractor specializing in accounting and payroll services. However, the contractor stated that O'Conner's Executive Director has never requested the bank reconciliations for review. O'Conner management should review the bank reconciliations prepared by its payroll and accounting contractor to ensure they are appropriate and accurate, and sign and date the reconciliations.

Recommendation

8. **O'Conner management review the monthly bank reconciliations prepared by its accounting and payroll contractor, and sign and date the reconciliations.**

Payroll/Personnel Controls

CDSS MPP, Section 11-402 require that supporting documentation be maintained for all program expenditures, including employee salary rates. In addition, the Circular, Section 7.m, states that employee salaries and wages must be supported by records indicating the total number of hours worked each day, and that payroll records must be signed by the employee and approved by a supervisor.

We reviewed the personnel files and payroll records of six O' Conner employees and noted the following:

- None of the personnel files contained documentation of the employee's salary.
- None of the employees signed their time sheets.

Recommendations

O'Conner management:

9. **Ensure authorized salary rate for each employee is documented in their personnel file or maintained in a separate log book.**

10. **Ensure all time sheets are signed by the employees in ink to certify the accuracy of the reported time.**

Failure to Report Independent Contractor Earnings

Section 18 of O'Conner's contract with the County requires the Agency to comply with all applicable laws and regulations, including those related to the reporting of income to the appropriate federal and State taxing agencies. In addition, Section A.2.6 of the A-C Handbook states that the contractor will ensure compliance with all applicable federal and State requirements including properly reporting and filing Form 1099s to the taxing agencies.

We noted the Agency did not report not prepare and issue Form 1099s to report income for any of its independent contractors for 2003. Our discussions with O'Conner personnel and the Agency's Certified Public Accountant (CPA), indicate that the failure to prepare the 1099's was due to an oversight by the CPA. O'Conner management should discuss with the Agency's CPA what steps should be taken to resolve the

unissued 1099s, and ensure that 1099s are issued to all independent contractors in the future.

Recommendation

11. O'Conner management discuss with the Agency's CPA what steps should be taken to resolve the unissued 1099s, and ensure that 1099s are issued to all independent contractors in the future.

County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
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(213) 351-5602

DAVID SANDERS, PH.D.
Director

Board of Supervisors
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First District
YVONNE B. BURKE
Second District
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Third District
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Fourth District
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Fifth District

March 1, 2006

Virginia O'Conner, Director
O'Conner and Atkins Group Home Inc.
2010 West 41st Drive
Los Angeles, CA 90062

Dear Ms. O'Conner:

FISCAL AUDIT REPORT ON O'CONNER AND ATKINS GROUP HOME INC.-
A GROUP HOME CONTRACTOR

This is in response to your fiscal corrective action plan (FCAP) dated September 27, 2005 with regard to the fiscal audit conducted by the Auditor-Controller report dated August 2, 2005.

Based on the FCAP one of the 11 recommendations was appropriately addressed and ten were partially addressed (See Attachment I).

With regard to the $3,634 in questioned costs, the total amount remains disallowed and must be repaid (See Attachment II).

DCFS requires that O'Conner and Atkins address the ten recommendations partially addressed and either submit to me a check payable to DCFS in the amount of $3,634 or make an appointment with me to establish a repayment plan by March 15, 2006. Failure to respond may result in DCFS taking administrative action in accordance with your contract.

If you have any questions or need further information, please contact me at (626) 691-1462.

Sincerely,

Signed Copy on File

Sue Harper, ASM III
Fiscal Monitoring and Special Payments

/SKH

Attachments

C: Mike McWatters, Auditor-Controller

Attachment I

FISCAL CORRECTIVE ACTION PLAN
O'CONNER AND ATKINS GROUP HOME, INC.
FISCAL AUDIT OF GROUP HOME CONTRACT

NOTE: The agency waived its right to an exit conference thereby accepting the findings in the Auditor-Controller's Audit Report dated August 2, 2005 as accurate.

Summary of Recommendations

One recommendation was directed to DCFS and was fully addressed (See Attachment II): Recommendation 1

Ten recommendations directed to O'Conner and Atkins were partially addressed: Recommendations 2 – 11.

Recommendation Status

1. **Resolve the $3,634 in questioned costs and if appropriate collect any disallowed amounts.**

   CAP: See Attachment II.

O'Conner and Atkins Management:

2. **Consistently maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

   CAP: O'Conner and Atkins management stated in their FCAP dated September 27, 2005, that they have set up a new method for storing receipts, original invoices, and other documents. Each month, the Director will place invoices and receipts, etc. into a monthly pre-marked envelope, seal the envelope and place it in a locked storage cabinet for safekeeping. **Please submit information/documentation such as policies or procedures to ensure compliance with the recommendation.**

3. **Discontinue the practice of using personal credit cards to purchase goods and services for the group home and obtain credit cards issued to the group home that are to be used exclusively for group home business.**

   CAP: O'Conner and Atkins management stated in their FCAP dated September 27, 2005, that they have discontinued the use of personal credit cards and that they were in the process of obtaining a business credit card that will be used solely for the purposes of the group home. **Please submit information/documentation such as policies or procedures to ensure compliance with the recommendation.**

4. **Prepare and maintain a benefits log to track the employee benefits earned and used.**

   CAP: O'Conner and Atkins management stated in their FCAP dated September 27, 2005, that they have created an Employee Benefits Log to monitor usage of vacation time. The Group Home Benefit Log will ensure that vacation time is logged in and deducted upon employee usage. The Group Home Administrator will monitor the Log monthly to ensure the hours are properly added and deducted. **A copy of the Log was attached to their FCAP. Please submit information/documentation such as policies or procedures to ensure compliance with the recommendation.**

5. **Take steps to ensure that expenses of a similar nature are consistently posted to the same account on the general ledger.**

   CAP: O'Conner and Atkins management stated in their FCAP dated September 27, 2005, that their CPA has reviewed the recurring transactions and will post the same types of transactions to the same accounts as they are presented. The CPA has further agreed to fax ledgers to the Boys Home Director on a monthly basis to show the postings. At this time, the postings will be reviewed for accuracy. **Please submit information/documentation such as policies or procedures to ensure compliance with the recommendation.**

6. **Ensure that supporting documentation is consistently marked "Paid" or otherwise cancelled to prevent reuse, and are cross-referenced to check numbers.**

   CAP: O'Conner and Atkins management stated in their FCAP dated September 27, 2005, that the Group Home Director will ensure that all receipts and invoices received are now marked "Paid" by the vendors. The Group Home Director will also ensure that check numbers are posted on the receipts for reference. **Please submit information/documentation such as policies or procedures to ensure compliance with the recommendation.**

7. **O'Conner management prepare and maintain Board minutes in accordance with the Health and Safety Code Section 1520.1(f).**

   CAP: O'Conner and Atkins management stated in their FCAP dated September 27, 2005, that Board Minutes have been changed to include names of those in attendance, dates, topic discussed, voting patterns, resolutions, decisions, and alternate Board choices. The minutes will include more detail for future use and discussion. **Please submit information/documentation such as a copy of Board Minutes to ensure compliance with the recommendation.**

8. **O'Conner management obtain and review the monthly bank reconciliations prepared by its accounting and payroll contractor and sign and date the reconciliations to establish that the reconciliations have been reviewed and approved.**

   CAP: O'Conner and Atkins management stated in their FCAP dated September 27, 2005, that The O'Conner Group Home CPA has agreed to submit reconciliations to the Boys Home Director monthly for review and signature. Once the reconciliation is reviewed, it will be signed by the Director and placed in a locked cabinet for future use and safekeeping. **Please submit information/documentation such as policies or procedures to ensure compliance with the recommendation.**

9. **Ensure authorized salary rate for each employee is documented in their personnel file or maintained in a separate logbook.**

   CAP: O'Conner and Atkins management stated in their FCAP dated September 27, 2005, that the O'Conner Group Home has created a salary sheet to be included in the employee's file. The salary sheet will show the employee's salary rate or hourly rate. **A copy of the salary sheet was included in their FCAP. Please submit information/documentation such as policies or procedures to ensure compliance with the recommendation.**

10. **Ensure all time sheets are signed by the employees in ink to certify the accuracy of the reported time.**

    CAP: O'Conner and Atkins management stated in their FCAP dated September 27, 2005, that each employee will be required to sign the employee timecard in ink to ensure accuracy. The Group Home Administrator will check for signatures twice monthly at payroll intervals. **Please submit information/documentation such as policies or procedures to ensure compliance with the recommendation.**

11. **O'Conner management discuss with the agency's CPA what steps should be taken to resolve the unissued 1099s, and ensure that 1099s are issued to all independent contractors in the future.**

    CAP: O'Conner and Atkins management stated in their FCAP dated September 27, 2005, that the group home CPA will ensure that all contractors grossing over six hundred dollars will be issued a W-9 form. The CPA will also issue 1099 forms as well. The group home Director will meet with the CPA monthly to ensure that all past contractors who grossed over six hundred dollars be issued 1099 forms. **Please submit information/documentation such as policies or procedures to ensure compliance with the recommendation.**

/SKH

Attachment II

FISCAL CORRECTIVE ACTION PLAN
O'CONNER AND ATKINS GROUP HOME, INC.
FISCAL AUDIT OF GROUP HOME CONTRACT

REVIEW OF EXPENDITURES

The Auditor-Controller review disclosed a total of $3,634 in unsupported/inadequately supported expenditures. Details of these expenditures are discussed below.

Unsupported/Inadequately Supported Expenditures

The auditors noted that O'Conner and Atkins did not have receipts or invoices to support foster care expenditures totaling $3,634. Specifically they noted:

- $3,521 in unsupported and inadequately supported credit card charges.

  O'Conner and Atkins is not disputing the finding and did not submit further documentation. Therefore, DCFS is disallowing the $3,521 and must be repaid.

- $113 in unsupported food expenditures for which O'Conner was unable to provide receipts.

  O'Conner and Atkins is not disputing the finding and did not submit further documentation. Therefore, DCFS is disallowing the $113 and must be repaid.

/SKH