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DEPARTMENT OF AUDITOR-CONTROLLER

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December 26, 2006

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES CONTRACT REVIEW – WRAPAROUND APPROACH SERVICES PROGRAM**

We have conducted a fiscal review of Hathaway-Sycamores Child and Family Services (Hathaway-Sycamores or Agency), a Wraparound Approach Services Program (Wraparound) service provider.

Background

The Department of Children and Family Services (DCFS) contracts with Hathaway-Sycamores, a private, non-profit, community-based organization, to provide and operate the Wraparound program. The Wraparound program is a family-centered and needs-driven program providing individualized services to children and their families such as, therapy, housing, educational, and social assistance. The target population for the Wraparound program includes children who are currently or at risk of being placed in a Rate Classification Level of 12 to 14 group home, Metropolitan State hospital, etc. Hathaway-Sycamores' offices are located in the Fifth District.

DCFS pays Hathaway-Sycamores on a fee-for-service basis with rates of $5,994 for non-federally eligible children and $2,997 for federally eligible children. DCFS paid Hathaway-Sycamores approximately $3,288,000 for Fiscal Year (FY) 2005-2006.

Purpose/Methodology

The purpose of the review was to determine whether Hathaway-Sycamores complied with its contract terms and appropriately accounted for and spent Wraparound funds in providing services to children and their families. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State, and County guidelines.

Results of Review

Hathaway-Sycamores over charged the Wraparound program approximately $62,000. Specifically, Hathaway-Sycamores inappropriately charged:

- Approximately $34,000 to reserve a bed at its group home facility for Wraparound clients.
- Approximately $15,000 in interest for borrowed capital.
- Approximately $8,000 for unsupported services provided to Wraparound and non-Wraparound clients.
- Approximately $5,000 for training provided to non-Wraparound staff.

Hathaway-Sycamores also needs to ensure that unspent Wraparound funds are placed in a reserve account to be used in the future for the Wraparound program. Hathaway-Sycamores reported approximately $737,000 of unspent Wraparound revenues for FY 2005-06. In addition, Hathaway-Sycamores incorrectly classified approximately $616,000 in unspent Wraparound revenue from prior periods as expenditures instead of classifying the amount as reserved revenue.

The details of our review, along with recommendations for corrective action, are attached.

Review of Report

On October 30, 2006, we discussed our report with Hathaway-Sycamores who generally agreed with the findings. In their attached response, Hathaway-Sycamores management indicates that they will review and incorporate all recommendations. In ninety days, we will review Hathaway-Sycamores' progress in implementing the recommendations contained in this report. We also notified DCFS of the results of our review.

We thank Hathaway-Sycamores for their cooperation and assistance during this review. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: David E. Janssen, Chief Administrative Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
William P. Martone, CEO, Hathaway-Sycamores Child and Family Services
Public Information Office
Audit Committee

WRAPAROUND APPROACH SERVICES
HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES
FISCAL YEAR 2005-06

UNSPENT REVENUE

Hathaway-Sycamores Child and Family Services (Hathaway-Sycamores or Agency) receives $5,994 per month for each non-federally eligible child and $2,997 per month for each federally eligible child assigned to them. In instances in which the Agency does not expense the entire monthly amount in providing services to a child, the Agency is permitted to use the excess revenue to fund services to a child that required services in excess of the monthly rate. Hathaway-Sycamores is also permitted to carryover unspent Wraparound funding from one program year to another to provide additional Wraparound program services in subsequent years.

Hathaway-Sycamores reported approximately $737,000 of unspent Wraparound revenue for Fiscal Year (FY) 2005-06. Hathaway-Sycamores needs to reserve the unspent funds to ensure that the funds are available to provide for Wraparound program services in subsequent years.

Recommendation

1. **Hathaway-Sycamores management reserve the unspent funds to ensure that the funds are used to provide Wraparound program services in subsequent years.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenues are properly recorded in Hathaway-Sycamores records and deposited timely in the Agency's bank account. In addition, determine whether the Agency maintained adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's April 2006 bank reconciliations for their nine bank accounts.

Results

Hathaway-Sycamores properly recorded and deposited cash receipts timely. However, the Agency needs to improve their controls over cash management. Specifically, all 35 outstanding checks totaling $10,115 on the Agency's April 2006 bank reconciliations were over 90 days old. In addition, the Agency did not prepare its bank reconciliations in a timely manner. The bank reconciliations for April 2006 were not available for review until July 2006 and all nine bank reconciliations were not signed and dated by the preparer and the reviewer.

Recommendations

Hathaway-Sycamores management:

2. **Resolve reconciling items in a timely manner.**

3. **Ensure that monthly bank reconciliations are prepared within 30 days of the bank statement date and signed by the preparer and the reviewer.**

EXPENDITURES/PROCUREMENT

Objective

Determine whether program related expenditures are allowable under the County contract, properly documented, and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records, and reviewed documentation for 24 non-personnel expenditure transactions billed by the Agency from July 2005 to April 2006, totaling $397,455.

Results

Hathaway-Sycamores expensed $43,749 in program funds for transactions that are not allowed under the County contract. Specifically, we noted the following:

- One (4%) of 24 expenditures sampled totaling $5,613 was related to reserving an empty bed at the Agency's group home facility for April 2006. During FY 2005-06, Hathaway-Sycamores charged a total of $33,678 for reserving the bed. OMB Circular A-122 disallows contingency reserves for future events when the occurrence cannot be foretold with certainty as to time, intensity, or with an assurance of their happening.

- One (4%) of 24 expenditures sampled totaling $5,616 was to pay for a training class provided to both Wraparound and non-Wraparound staff. Based on the training attendance sheet, 31 (89%) of 35 attendees were not Wraparound staff. The amount over charged totaled $4,999.

- One (4%) of 24 expenditures sampled totaling $15,840 was related to translation services provided to Wraparound clients. Hathaway-Sycamores did not maintain adequate documentation to support $4,140 (26%) of the $15,840 charged.

- One (4%) of 24 expenditures sampled totaling $2,330 was to purchase a color printer used by both Wraparound and non-Wraparound staff at one of the Agency's offices. Based on the number of employees at the office, Hathaway-Sycamores over charged $932 (40%) of the $2,330 billed to Wraparound.

In addition, Hathaway-Sycamores incorrectly classified $616,020 in unspent Wraparound revenue from prior periods as expenditures instead of classifying the unspent funds as reserved revenue. Subsequent to our review, the Agency reclassified the $616,020 as reserved revenue.

Recommendations

Hathaway-Sycamores management:

4. **Reimburse the Wraparound program $43,749 and ensure the money is solely used for the Wraparound program.**

5. **Discontinue using the Wraparound Program funds for expenditures applicable to other programs.**

6. **Ensure the reserved revenue is solely used for the Wraparound program.**

INTERNAL CONTROLS

Objective

Determine whether the contractor maintained sufficient internal controls over its business operations.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, and tested transactions in various areas such as cash, expenditures, payroll and personnel.

Results

Hathaway-Sycamores needs to improve its controls over Wraparound funds. The Agency designated a portion of Wraparound funds to purchase resources and related services to meet specific family needs. However, in four instances, Hathaway-Sycamores did not maintain sufficient controls over the use of the funds resulting in unsupported expenditures of $3,683. Specifically, we noted the following:

- Hathaway-Sycamores advanced $2,500 to three employees to accompany a Wraparound client to Tijuana, Mexico, to visit his family. The Agency did not maintain documents to adequately support $827 (33%) of the $2,500.

- Hathaway-Sycamores provided Wraparound services to three non-Wraparound children residing at the Agency's group home. Total amount spent for the three children was $2,856.

Recommendations

Hathaway-Sycamores management:

7. **Ensure expenditures are supported with adequate documentation.**

8. **Ensure that Wraparound funds are used solely for Wraparound clients.**

9. **Reimburse the Wraparound program $3,683.**

FIXED ASSETS

Objective

Determine whether Hathaway-Sycamores' fixed assets purchased with Wraparound funds are used for the Wraparound program and that the assets are safeguarded.

We did not perform test work in this section, as Hathaway-Sycamores did not use Wraparound funding to purchase fixed assets.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll is appropriately charged to the Wraparound program. In addition, determine whether personnel files are maintained as required.

Verification

We reviewed payroll expenditures for nine (16%) employees, totaling $15,001, for April 2006. We also reviewed the personnel files of staff assigned to the Wraparound program.

Results

Hathaway-Sycamores' salaries were properly supported and appropriately charged to the Wraparound program. The Agency also maintained personnel files as required by the County contract.

Recommendation

There are no recommendations for this section.

COST ALLOCATION PLAN

Objective

Determine whether Hathaway-Sycamores' Cost Allocation Plan was prepared in compliance with the County contract and applied to program costs.

Verification

We reviewed Hathaway-Sycamores' Cost Allocation Plan and selected sample expenditures incurred during April 2006.

Results

Hathaway-Sycamores' allocated $15,127 in interest expense related to the Agency's line of credit as indirect cost. Hathaway-Sycamores management stated that the Agency utilizes a line of credit account to advance funds while waiting for payments from the County for its mental health program. As of June 2006, Hathaway-Sycamores had an outstanding balance of $6,550,000 on the line of credit account and paid interests totaling $168,340 for FY 2005-2006. The Agency allocated $15,127 (9%) of the $168,340 to Wraparound program as indirect cost. The County contract and OMB Circular A-122 disallow costs incurred for interest on borrowed capital. Subsequent to our review, the Agency reallocated the $15,127 from the Wraparound program.

Recommendation

10. Hathaway-Sycamores management ensure that only allowable expenditures are included in the indirect cost pool.

December 5, 2006

Mr. J. Tyler McCauley
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Kenneth Hahn Hall of Administration
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Los Angeles, CA 90012-2766

Re: Wraparound Contract Fiscal Review Draft Report

Hathaway-Sycamores Child and Family Services has reviewed and concurred with the findings on the above referenced report. Hathaway-Sycamores will certainly review and incorporate all the recommendations listed into their procedures.

Hathaway-Sycamores and its management team appreciated the hard work and dedication of the audit team during this fiscal review. If you should have any questions, please do not hesitate to contact me at (626) 395-7100.

Sincerely,

William Martone
President and CEO