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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: **FISCAL REVIEW OF FRED JEFFERSON MEMORIAL – A FOSTER FAMILY AGENCY AND GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our audit report of Fred Jefferson Memorial's (Jefferson or Agency) fiscal operations from January 1, 2004 through December 31, 2004. The Department of Children and Family Services (DCFS) contracts with Jefferson to provide Foster Family Agency (FFA) services to recruit, certify, train and support foster family homes. DCFS also contracts with Jefferson to operate two Group Homes (GH).

During 2004, Jefferson's Los Angeles County FFA office served 297 children in 91 certified foster homes. Each of Jefferson's group homes had a resident capacity of six children between the ages of thirteen and seventeen. Jefferson's Los Angeles County FFA and GHs are located in the Second Supervisorial District.

During 2004, Jefferson received $3,174,847 in FFA funding and $530,371 in GH funding from DCFS. Jefferson also received a total of $1,603,311 from Riverside and San Bernardino counties for FFA services in those counties. Jefferson paid 47% of the total FFA funds it received directly to foster parents, which exceeds the State guidelines requiring at least 40% of FFA funds to be paid directly to foster families.

Scope

Our review was intended to determine whether Jefferson 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 Jefferson's care. We also evaluated the adequacy of Jefferson's accounting records, internal controls, and compliance with federal, State, and County fiscal guidelines governing the use of FFA & GH funds.

Summary of Findings

We questioned a $358,606 loan of program funds made to Freeman Enrichment Center, a private school operated by the Agency's management and identified $8,889 in unallowable costs. We also noted that Jefferson needs to strengthen its internal controls over bank account reconciliations, payroll/personnel records, and independent contractor income reporting. Jefferson also needs to establish a cost allocation plan and separate each program's/county's costs. In addition, the Agency purchased a building with program funds without informing DCFS. 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 Jefferson's management takes appropriate action to address the recommendations in this report and ensure the corrective actions result in permanent changes.

Review of Report

We provided a draft of this report to Jefferson's management for their review and comments. However, the Agency declined to have a formal exit conference. Jefferson's subsequently provided their response to the report directly to DCFS. DCFS will incorporate the Agency's response into a Fiscal Corrective Action Plan (FCAP) that will be submitted directly to the Board of Supervisors. We thank Jefferson's management and staff for their cooperation during our review.

Please call me, or your staff may contact Jim Schneiderman at (626) 293-1101.

JTM:MO:JLS:MM

Attachment

c: David E. Janssen, Chief Administrative Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Fred Jefferson Memorial Foster Family Agency and Group Home
Cecilia Jefferson, 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

FRED JEFFERSON MEMORIAL
FISCAL AUDIT OF FOSTER FAMILY AGENCY AND GROUP HOME CONTRACTOR

REVIEW OF EXPENDITURES

We questioned $358,606 in a loan made to an affiliated organization and $8,889 in unallowable expenditures. Details of these items are discussed below.

APPLICABLE REGULATIONS AND GUIDELINES

Jefferson is required to operate its FFA and GH in accordance with the following federal, State, and County regulations and guidelines:

- FFA and GH Contracts, including 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)

Loans to the Freeman Enrichment Center

Jefferson's 2004 financial statements include a $358,606 receivable for loans made in prior years to Freeman Enrichment Center (FEC), a private school operated by Jefferson's management. We noted that the loans were made with Jefferson's foster care funds and were used to pay the salaries of school staff during 1999 and 2000.

While the funds given to FEC are recorded as a loan on Jefferson's financial statements, we noted that there is no loan agreement between Jefferson's and FEC, and Jefferson is not charging FEC interest on the loans. In addition, FEC did not repay any of the funds in the five years between when the first transfer was made and the end of our audit period.

Based on our review, it is unclear whether the foster care funds that Jefferson gave to FEC are actually a loan, or a use of foster care funds to pay for educational expenses for the foster children who attended FEC. If the transfer was actually a loan, we question whether using surplus foster care funds to make a loan to an affiliated business, without an agreement, interest charges or repayments, is appropriate. If the transfer was to pay for educational expenses, those costs are unallowable under CDSS-MPP Section 11-402.826(f). In either case, DCFS should require Jefferson to immediately recover the $358,606 in foster care funds that were transferred to FEC.

Jefferson should then develop a plan for how they will use the funds for approval by DCFS.

Recommendation

1. **DCFS require Jefferson to immediately recover the $358,606 in foster care funds that were transferred to FEC and require Jefferson to develop a plan for how they will use the funds for approval by DCFS.**

Unallowable Expenditures

Freeman Enrichment Center Building Expenses

Jefferson owns a building at 1330 South Long Beach Boulevard that is used by both the FFA and FEC. FEC has two classrooms in the building. However, all of the mortgage payments were made with foster care funds, and none of the costs were charged to the FEC program.

The A-C Handbook states that, if a contractor operates multiple programs, the contractor must allocate expenditures that benefit the programs or funding sources on an equitable basis. Jefferson needs to allocate the building costs between the FFA and FEC. FEC uses approximately 590 square feet or 6.73% of the building. Total mortgage payments during our audit period were $53,089. Based on the space used by the FEC, $3,573 in mortgage payments should be allocated to the FEC and are disallowed from the FFA program. Mortgage payments made subsequent to the audit period (January 2005) should be allocated in the same manner.

Fines, Penalties and Other Unallowable Costs

Sections 2, 16 and 23 of the Circular provide that interests on borrowed capital, fines and penalties, and alcoholic beverages are unallowable costs. Jefferson charged $5,316 in unallowable costs to the FFA program. Specifically, $2,785 was for interest on their line of credit, $1,956 was for interest on over-limit and late fees, $384 was for non-sufficient fund check fees, and $191 was for alcoholic beverages charged to the FFA program.

Recommendations

2. **DCFS resolve the $8,889 ($3,573 + $5,316) in unallowable costs and if appropriate, collect any disallowed amounts.**

3. **Jefferson management ensure that foster care monies are used for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the group home and foster family agency.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted the following internal control weaknesses and contract compliance issues during our review.

ALLOCATION OF COSTS

As noted earlier, the A-C Handbook states that, if a contractor operates programs in addition to the services required under contract, the contractor must allocate expenditures that benefit multiple programs or funding sources on an equitable basis. The Handbook also requires contractors to maintain separate accounts for each program's expenses.

As previously noted, Jefferson provides FFA services to Los Angeles, Riverside and San Bernardino counties. Jefferson also operates two group homes and a State-funded Food Nutrition Program, as well as the affiliated FEC educational program. However, Jefferson only allocates its costs between the FEC and Jefferson. It does not record the costs of its programs separately and does not allocate Jefferson's centralized costs among the various programs or among the counties and State who fund the programs.

Recommendations

Jefferson management:

4. **Record the costs of each program and funding source separately.**

5. **Develop a formal plan to allocate expenses among the Agency's programs and funding sources.**

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 be reviewed by management for appropriateness and accuracy. Both the preparer and reviewer should sign and date the bank reconciliations. We noted that neither the preparer nor the reviewer at Jefferson sign and date the bank reconciliations. As a result, we were unable to determine whether the bank reconciliations were prepared timely or were reviewed for appropriateness and accuracy.

Recommendations

Jefferson management:

6. **Ensure bank reconciliations are prepared within 30 days of the bank statement date.**

7. **Ensure the Agency's bank reconciliations are signed and dated by both the preparer and the reviewer.**

Payroll/Personnel Controls

A-C Handbook Section 3.1 states that timecards or time reports must be prepared for each pay period indicating total hours worked each day by program and total hours charged to each program. The salary of each employee working on more than one agreement or program must also be allocated based on the time spent working on each program. In addition, Circular A-122 states employee salaries and wages must be supported by records indicating the total number of hours worked each day, and the payroll records must be signed in ink by the employee and approved by a supervisor.

We reviewed the personnel files and payroll records of 23 Jefferson employees and noted the following:

- Two (9%) employees did not separate their hours by program (e.g., FFA, GH, etc.) on their timecards.

- Sixteen (70%) employees' timecards were not signed by the employees' supervisors.

Recommendations

Jefferson management:

8. **Ensure that employees report the hours worked on each program on their timecards.**

9. **Ensure all timecards are signed by the employees' supervisors.**

Reporting Independent Contractor Income

Jefferson's contract with the County and the A-C Handbook requires the Agency to comply with federal and State laws and regulations including reporting income and payroll taxes.

Jefferson did not prepare a Form 1099 to report income for one of its independent contractors for 2004. Our discussions with Jefferson personnel indicate that the failure to prepare the 1099 was due to an oversight by the bookkeeper.

Recommendation

10. Jefferson management ensure that 1099s are issued to all independent contractors.

Building Acquisition

The Code of Federal Regulations (CFR), Title 45, Section 74.37, states that the County may record a lien or other notice indicating that real property has been acquired, constructed or improved with federal funds, and that use and disposition conditions apply to the property. All real property, equipment, intangible property and debt instruments that are acquired or improved with federal funds shall be held in trust by the County as trustee for the beneficiaries of the program and shall not be encumbered without the approval of the United States Department of Health and Human Services awarding agency.

Jefferson purchased the building at 1330 S. Long Beach Boulevard for $480,000 with $4,475 in escrow fees and $55,385 in capital improvements. The Agency did not inform DCFS or the State that they had purchased the building with foster care funds (70% from Los Angeles County, 18% from San Bernardino County and 12% from Riverside County). As a result, the County did not have the opportunity to put a lien on the building to prevent transfers that could affect the County's interest in the property.

While the CFR requirement was not in Jefferson's agreement with the County, DCFS believes that that Jefferson must comply with the CFR provisions. DCFS should consult with County Counsel and determine whether the County can place a lien on the building to protect the County's interest.

Recommendation

11. DCFS management consult with County Counsel to determine whether the County can place a lien on the building to protect the County's interest.