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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 TRANSCENDENCE CHILDREN & FAMILY SERVICES (FORMERLY WILENE'S RE-GROWTH CENTER) - A FOSTER FAMILY AGENCY AND GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our audit report on Transcendence Children & Family Services (TCFS or Agency), formerly known as Wilene's Re-Growth Center, fiscal operations from July 1, 2003 through June 30, 2004. The Department of Children and Family Services (DCFS) contracts with TCFS to operate a Foster Family Agency (FFA) to recruit, certify, train and support foster family homes and provide services to DCFS children placed in those homes. TCFS had 81 children placed in approximately 44 certified homes. TCFS is located in the First Supervisorial District.

During the review period, TCFS received $839,731 in FFA funds from DCFS and paid $479,439 (57%) directly to foster parents, which exceeds the State requirements that 40% of FFA funds go directly to the foster parents. In addition, during the first four months of the review period, TCFS was licensed to operate five group homes (GHs), each with a resident capacity of six children. DCFS paid TCFS $5,234 per month for each child, for a total of $568,835 in GH funds.

Scope

Our review was intended to determine whether TCFS complied with its contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated TCFS' controls over its fiscal operations.

Summary of Findings

We identified $16,437 in questioned costs. We also noted that TCFS needs to strengthen its controls over its disbursements, payroll and bank reconciliations.

We have recommended that DCFS resolve the questioned costs and, to the extent appropriate, collect any disallowed amounts. In addition, DCFS should ensure that TCFS management takes appropriate action to address the recommendations in this report and monitor to ensure that the actions result in permanent changes.

Review of Report

We discussed our report with TCFS management in April 2006. The Agency will provide their response to the report directly to DCFS. DCFS will incorporate the Agency's response into a Fiscal Corrective Action Plan that will be submitted directly to the Board of Supervisors. We thank TCFS 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:MMO:JLS

Attachment

c: David E. Janssen, Chief Administrative Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Transcendence Children & Family Services
La Quetta Bush-Simmons, Executive Director
Board of Directors
California Department of Social Services
Cora Dixon, Bureau Chief, Foster Care Audits Bureau
Sheliah Dupuy, Bureau Chief, Foster Care Rates Bureau
Public Information Office
Audit Committee Members
Commission for Children and Families

TRANSCENDENCE CHILDREN & FAMILY SERVICES
FISCAL REVIEW

REVIEW OF EXPENDITURES

We identified $16,437 in questioned costs. Details of these costs are discussed below.

Applicable Regulations and Guidelines

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

- FFA and GH Contract, including Exhibit C and I, respectively, 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)

Unallowable Costs

We identified $7,484 in unallowable expenditures:

- $7,514 in building costs (mortgage payments, pest control, insurance, trash removal, depreciation, utilities, etc.) for the Agency's property at 1173 San Bernardino Road. The FFA program occupies 495 (7.32%) of the 6,763 total square feet in the building. However, 22% of the building costs were charged to the FFA. TCFS was unable to justify why the FFA was charged more than 7.32% of the building costs. TCFS management needs to ensure that its building costs are allocated based on the amount of space occupied by the individual programs.
- $579 in property and workers' compensation insurance premiums that were not related to the FFA or GH programs. The A-C Handbook states that only expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the Program are allowable.
- $333 overpayment to an employee for retroactive pay for a promotion.
- $290 for gasoline for two non-Agency vehicles. The A-C Handbook states that only expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the program are allowable.

- $49 in non-sufficient fund bank account fees. Penalties and interest payments are not allowable according to the Circular and the A-C Handbook.

The unallowable costs $7,484 are net of $1,281 in costs we identified that should have been allocated to the FFA/GH, but were not charged to those programs.

Unsupported/Inadequately Supported Costs

The A-C Handbook states that all revenues and expenditures shall be supported by original invoices, receipts, timecards, travel logs, or other documentation, and that unsupported expenditures shall be disallowed upon audit.

We identified $8,953 in expenditures for which TCFS did not have adequate documentation:

- $6,000 in unsupported salary payments made to an Agency employee. The salary payments were not supported by timecards, or other documentation as required by the A-C Handbook and the Circular.

- $2,953 in unsupported and inadequately supported expenditures for items such as insurance, vehicle maintenance and cellular phones. The Agency was either unable to provide supporting documentation, such as itemized receipts, to indicate what was actually purchased, or the documentation provided was inadequate to establish that the expenditures were reasonable and allowable.

Recommendations

1. **DCFS management resolve the $16,437 in questioned costs and, if appropriate, collect any disallowed amounts.**

TCFS management:

2. **Consistently maintain adequate supporting documentation for all foster care and group home expenditures, including original itemized receipts/invoices.**

3. **Ensure that its cost allocation plan for the 1173 San Bernardino Road property is based on the amount of space occupied by the programs using the facility.**

Contract Compliance and Internal Controls

We noted the following other areas where TCFS needs to improve its contract compliance and internal controls. DCFS should ensure that TCFS management takes action to address the recommendations in this report and monitor to ensure the actions result in permanent changes.

Payroll Controls

CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including salaries. We reviewed 15 employee personnel files and noted that three files (20%) did not contain the employee's authorized salary rate or pay history. In addition, two employees' authorized salary rates did not agree to the rate they actually were being paid. We verified that the salary rates paid to these five employees were reasonable using the most current Child Welfare League of America Salary Study.

TCFS management needs to ensure that employee pay rates are consistently documented and updated in the employee's personnel file.

Recommendation

4. **TCFS management ensure employee pay rates are consistently documented and updated in the employee's personnel file.**

Disbursement Procedures

The Agency does not have a policy requiring two signatures on checks. To ensure that disbursements are appropriate, the Agency should establish a written policy requiring two signatures on checks, as required by section A.2.1 of the A-C Handbook.

Recommendation

5. **TCFS establish a written policy two signatures on checks as required by the current A-C Handbook.**

Bank Reconciliations

A-C Handbook Section 1.4 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. At TCFS, the preparer does not sign the bank reconciliations and the reconciliations are not reviewed by management.

Recommendation

6. **TCFS management ensure the Agency's bank account reconciliations are reviewed by management and signed and dated by both the preparer and the reviewer.**