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July 30, 2007

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF TANA GROUP HOME – A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on Tana Group Home (Tana or Agency) fiscal operations from January 1, 2004 to December 31, 2004. Tana was licensed to operate two group homes (GHs), one with a resident capacity of twelve children, and the other with a capacity of six children. Tana was located in the Second Supervisorial District.

The Department of Children and Family Services (DCFS) contracted with Tana to care for foster children placed in the Agency's homes. Tana's GH contract with the County expired in October 2005 and was not renewed. DCFS indicated that all County placed children were removed from Tana's facilities.

DCFS paid Tana $4,102 a month for each child, based on a rate classification from the California State Department of Social Services (CDSS), or a total of $684,700 for calendar year 2004.

In addition, from January through June 2004, Tana had a contract to run an Emergency Shelter Program (ESP) for short-term placements for adolescents. Tana agreed to hold two beds vacant for emergency placements. Tana received $53,625 in ESP revenue. Although Tana commingled its ESP funds with GH funds, we did not require the Agency to account for the cost of each program separately, since DCFS has terminated the ESP.

Scope

Our review was intended to determine whether Tana complied with its contract terms and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated the Agency's accounting records, internal controls and compliance with applicable federal, State and County fiscal guidelines governing group home foster care funds.

Summary of Findings

We identified $189,099 in questioned costs. In addition, Tana's financial records as of December 31, 2004, indicate a net loss of $67,571 for the year, and negative net assets of $96,808. These conditions raise substantial doubt about Tana's financial viability. Tana also needed to strengthen its internal controls over its accounting and disbursement procedures, payroll records, and bank reconciliations.

We have recommended that DCFS resolve the questioned costs and, to the extent possible, collect any disallowed amounts. In addition, if DCFS contracts with Tana in the future, DCFS needs to ensure the Agency takes action to address the recommendations in this report and monitor to ensure that the actions taken result in permanent changes. DCFS should also consider the Agency's financial condition and the impact that may have on any children placed in the Agency's care in the future.

Review of Report

We discussed our report with Tana management on December 19, 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 Tana'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:MMO:JLS:MM

Attachment

c: William T Fujioka, Chief Executive Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Susan Kerr, Chief Deputy Director, Department of Children and Family Services
Carrie Thomas, Executive Director, Tana Group Home
Board of Directors, Tana Group Home
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept. of Social Services
Sheilah Dupuy, Bureau Chief, Foster Care Rates Bureau, CA Dept. of Social Services
Public Information Office
Audit Committee
Commission for Children and Families

TANA GROUP HOME
FISCAL REVIEW

REVIEW OF EXPENDITURES/REVENUES

We identified $189,099 in questioned costs. Details of these costs are discussed below.

Applicable Regulations and Guidelines

Tana was required to operate its GHs in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, including Exhibit I, 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 A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

We identified $28,683 in unallowable GH expenditures:

- $22,878 in penalties ($17,599) and interest ($5,279) paid to the Internal Revenue Service (IRS). Under Sections 16 and 23 of Attachment B of Circular A-122, penalties and interest payments are unallowable costs.
- $5,011 in lease payments and Department of Motor Vehicles fees for non-group home vehicles. A-C Handbook Section 1.3 states that only expenditures that are necessary, proper and reasonable for the program are allowable.
- $794 in non-sufficient fund check fees ($616) and in late payment fees ($178). Fines and penalty costs are not allowable under Circular A-122, Section 16.

Unsupported/Inadequately Supported Costs

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

We identified $160,416 in unsupported and inadequately supported expenditures, for items such as; employee reimbursements, bank withdrawals, utilities, office supplies,

training, groceries, insurance, vehicle payments, and payments to three independent contractors. Tana was either unable to provide any supporting documentation (e.g., itemized receipts, etc.) to indicate what was actually purchased, or the documentation provided was inadequate to show that the expenditures were appropriate. In addition, the Agency did not have current contracts with three of the eight independent contractors reviewed.

Recommendations

1. **DCFS management resolve the $189,099 in questioned costs and, to the extent possible, collect any disallowed amounts.**

If DCFS considers contracting with Tana in the future, Tana management:

2. **Consistently maintain adequate supporting documentation for all foster care expenditures, including original itemized receipts/invoices and current contracts with all independent contractors.**

3. **Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.**

FINANCIAL VIABILITY OF TANA

Tana's records as of December 31, 2004 indicate a net loss of $67,571 for the year, and negative net assets of $96,808. These conditions raise substantial doubt about Tana's financial viability.

DCFS advised us that Tana's agreement with the County expired in October 2005, and was not renewed. DCFS also indicated that all County placed children were removed from Tana's facilities. However, we noted that the last child was not removed from the group home until January 2006, two months after the contract expired.

If Tana expresses an interest in contracting with the County for group home services in the future, DCFS will need to carefully review Tana's financial condition and require Tana to provide a plan outlining how it will provide a high quality level of care, while addressing the Agency's financial difficulties.

Recommendations

4. **DCFS ensure all placed children are removed from group homes immediately upon contract expiration.**

5. **If Tana expresses an interest in contracting with the County in the future, DCFS carefully review Tana's financial condition and require Tana to provide a plan outlining how it will provide a high quality level of care, while addressing the Agency's financial difficulties.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several additional contract compliance issues and internal control weaknesses. If DCFS contracts with Tana in the future, DCFS will need to ensure that Tana management takes appropriate action to address each of the internal control recommendations in this report. DCFS should also monitor to ensure that these actions result in permanent changes.

Accounting Procedures

We reviewed Tana's accounting procedures and noted the following:

- The IRS reported that, as of June 20, 2005, Tana owed a total of $114,273; $78,977 in taxes, $28,590 in penalties and $6,706 in interest. In addition, Tana's records indicate that, as of December 31, 2004, it owed $20,769 in State taxes. Penalty and interest payments are not allowable according to the Circular. DCFS needs to ensure that Tana does not use GH funds to pay penalties or interest on its tax liabilities.

- Tana's financial records as of December 31, 2004 included an $18,970 debt to the Executive Director for a loan to the Agency. However, Tana was unable to provide any documentation to substantiate the loan. If the Agency cannot substantiate the $18,970 loan, the loan should be removed from the Agency's financial records.

- Tana did not maintain a receivables ledger to account for payments due from DCFS. Without a ledger, there is an increased risk that amounts receivable could remain outstanding and go undetected.

Recommendations

6. **DCFS management ensure Tana does not use group home funds to pay penalties or interest on its tax liabilities.**

If DCFS considers contracting with Tana in the future, Tana management:

7. **Take all steps necessary to pay its tax liabilities and ensure that future tax payments are made timely.**

8. **Remove the $18,970 payable to the Executive Director from the Agency's financial records.**

9. **Maintain a receivables ledger.**

Disbursement Procedures

The A-C Handbook B.2.1 states that all supporting documentation shall be referenced to check numbers and marked "Paid", or otherwise canceled to prevent duplicate payments.

We noted that 48 of 85 (56%) invoices/receipts reviewed were not marked "Paid" or cancelled. In addition, the supporting documentation was not referenced to the corresponding check number.

Recommendation

10. If DCFS considers contracting with Tana in the future, Tana management ensure all invoices and receipts are marked "Paid" or cancelled and referenced to the corresponding check number, if applicable.

Payroll Records

CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including salary rates. We reviewed twelve employee personnel folders and noted that none of the files contained the employees' current authorized salary rate. We also noted that five employees' hours recorded on their timecards did not agree to the hours they were paid for per the Agency's payroll register. In addition, three of twelve employee (25%) timecards were not signed by the employee as required by the A-C Handbook. Without complete payroll and personnel records, the Agency cannot ensure that payroll expenditures are authorized and accurate.

Recommendations

If DCFS considers contracting with Tana in the future, Tana management:

11. Ensure personnel files contain the current authorized salary amounts or hourly rates of pay.

12. Ensure employees accurately record the hours they worked on their timecards and are only paid for hours worked.

13. Ensure employees review and sign timecards.

Bank Reconciliations

A-C Handbook Section B.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. We noted that the designated reviewer of Tana's bank reconciliations does not sign and date the bank reconciliations. Therefore, we were unable to determine whether the bank reconciliations were reviewed for appropriateness and accuracy.

Recommendation

14. If DCFS considers contracting with Tana in the future, Tana management ensure the Agency's bank account reconciliations are signed and dated by the designated reviewer.