COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2706
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

WENDY L. WATANABE
CHIEF DEPUTY

December 5, 2007

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF CRITTENTON SERVICES FOR CHILDREN AND FAMILIES - A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of Crittenton Services for Children and Families (Crittenton or Agency) from April 1, 2005 through March 31, 2006. The Department of Children and Family Services (DCFS) contracts with Crittenton to operate two group homes, one with a resident capacity of 43 children and the other with a capacity of 101 children. Crittenton's administrative office and group homes are located in Orange County. However, they provide services to children from Los Angeles County.

During our review period, DCFS paid Crittenton a monthly rate of $5,613 per child based on a rate determined by the California State Department of Social Services (CDSS). During the review period, Crittenton received a total of $4,547,324 in group home foster care funds from DCFS.

Scope

Our review was intended to determine whether Crittenton 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 federal, State and County fiscal guidelines governing the disbursement of group home foster care funds.

Summary of Findings

We identified $19,323 in questioned costs, $85,762 in actual overpayments and another $81,022 in potential overpayments from DCFS. In addition to its Group Homes, we noted that Crittenton operates a number of other County and non-County programs. However, the Agency has not established a method to allocate costs among its programs/funding sources. Finally, we noted Crittenton needs to strengthen its internal controls over accounting for fixed assets, disbursement procedures, personnel and payroll records, independent contractors and bank reconciliations. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the questioned costs and, to the extent possible, collect the disallowed amounts and overpayments. In addition, DCFS needs to ensure that Crittenton's management takes action to address the recommendations in this report and monitor to ensure the actions result in permanent changes.

Review of Report

We discussed our report with Crittenton's management on May 2, 2007. 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 Crittenton'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:MM:RHL

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
Joyce Capelle, CEO, Crittenton Services for Children and Families
Board of Directors, Crittenton Services for Children and Families
Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept. of Social Services
Sheliah Dupuy, Bureau Chief, Foster Care Rates Bureau, CA Dept. of Social Services
Public Information Office
Audit Committee
Commission for Children and Families

Crittenton Services for Children and Families
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $19,323 in unallowable and unsupported/inadequately supported expenditures. We also noted $85,762 in actual overpayments, and another $81,022 in potential overpayments. Details of these costs/revenues are discussed below.

Applicable Regulations and Guidelines

Crittenton is required to operate its GH 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)
- California Department of Social Services Manual of Policies and Procedures (CDSS MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

We identified $17,450 in unallowable expenses as follows:

- $17,420; $7,422 in interest on an equity line of credit and an employee loan that management indicated were used to finance operations, $6,822 in finance charges for two insurance policies, $1,906 in credit card finance charges, vehicle registration and unemployment insurance late fees; and $1,270 in not sufficient fund and returned check fees. Sections 16 and 23 of the Circular states that fines, penalties, and interest payments are unallowable costs.
- $30 for internet services used for another program administered by the Agency.

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 $1,873 in expenditures that were either unsupported, or inadequately supported.

- $1,633 in inadequately supported credit card expenditures for gasoline, groceries, office supplies, cell phone insurance and other items. The Agency provided credit card statements but could not provide original receipts. Section B.2.4 of the A-C Handbook requires all credit card disbursements be supported by original invoices, store receipts, or other external authenticating documents indicating the item purchased and the employee making the purchase. Credit card statements alone are not sufficient support for credit card purchases.

- $240 in inadequately supported petty cash disbursements. The Agency provided a petty cash log which indicated the amounts were for food and postage but did not provide original receipts for the disbursements. Section A.3.2 of the A-C Handbook requires that all disbursements be supported by original invoices, store receipts or other external authenticating documents.

As discussed in the "Allocation of Costs" section of this report, Crittenton does not have a method to allocate costs among its funding sources. As a result, it is likely that some of the questioned costs discussed in this section were related to other counties. Therefore, when the Agency develops a cost allocation plan, DCFS will need to determine the appropriate amount of unallowable and inadequately supported costs that should be recovered as part of the audit settlement.

Recommendations

DCFS management:

1. **Resolve the $19,323 in unallowable and unsupported/inadequately supported costs and, to the extent possible, collect disallowed amounts.**

Crittenton management:

2. **Ensure that foster care funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the Group Home.**

3. **Consistently maintain adequate supporting documentation for all foster care expenditures, including original itemized receipts/invoices.**

Overpayments By DCFS

As of October 2006, Agency records indicated 66 separate DCFS overpayments totaling $166,784, some of which date back to March 2002. The Agency acknowledged

that $85,762 should be paid back to the County but is disputing the remaining $81,022. The disputed amounts primarily involve discrepancies between DCFS and the Probation Department's records and what Crittenton recorded as days of care provided to Los Angeles County foster children. The County contract stipulates that Contractor and County shall attempt to resolve payment discrepancies within thirty days of notice from County.

Recommendations

DCFS management:

4. **Collect the $85,762 in undisputed overpayments and continuously monitor to ensure that over/underpayments are resolved timely.**

Crittenton management:

5. **Repay the $85,762 in undisputed overpayment amounts and work with DCFS to resolve the remaining $81,022 in disputed overpayments.**

6. **Ensure that any future overpayments are immediately reported and repaid to DCFS as required by the County contract.**

ALLOCATION OF COSTS

Section C.2.0 of the A-C Handbook requires contractors who operate multiple programs to allocate expenditures that benefit multiple programs/funding sources on an equitable basis. The contractor should maintain documentation of how the expenses were allocated, such as timecards, time summaries, square footage measurements, number of employees, etc.

Crittenton received funding for its group homes from DCFS and other counties. Crittenton also received funding from county and non-county sources for its Foster Care, Family Preservation, Refugee Resettlement, Mental Health, State Nutrition Programs, a Nonpublic School and a Workability Grant programs. Crittenton received a total of $9.75 million from government contracts including $4.55 million (47%) from Los Angeles County DCFS.

The Agency did not account for program expenditures by funding source as required by Section A.2.4 of the A-C Handbook, which requires separate accounts be maintained for each county's program's expenses and revenues. Rather, the Agency recorded all group home expenditures into one single cost center, without taking into account the program funding sources. The Agency needs to allocate group home expenses to their various funding sources on an equitable basis.

We noted that while general overhead expenses were captured, they were not allocated among the various programs/funding sources in their accounting records. The Agency needs to allocate direct and indirect/overhead expenses to each of their programs and funding sources on an equitable basis.

Recommendations

Crittenton management:

7. **Develop a cost allocation plan and submit it to DCFS for review. Once DCFS has reviewed and approved the plan, allocate direct and indirect/overhead expenditures among the various programs (i.e. GH, Mental Health, Foster Care) and funding sources (i.e. Los Angeles, Riverside, San Bernardino Counties).**

DCFS management:

8. **Evaluate the Agency's cost allocation plan for appropriateness.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted that Crittenton needs to improve its contract compliance and internal controls. DCFS should ensure that Crittenton management takes action to address each of the issues discussed in this report and monitor to ensure the actions result in permanent changes.

Accounting Procedures

A-C Handbook Section B.4.2 requires agencies to keep a current list of fixed assets, including the item description, serial number, date of purchase, acquisition cost and sources of funding. Crittenton's fixed asset list does not include the serial number or the sources of funding as required by the A-C handbook.

We also noted that ten computer monitors, ten printers, a fax machine, a copier, and two televisions in the Agency's administrative office were not tagged or listed in the Agency's fixed asset log. While these items are not considered fixed assets under the contract, it is good business practice to tag and track portable equipment, such as monitors and printers, which can easily be lost or stolen.

Recommendation

9. **Crittenton management ensure the fixed asset list includes the serial number or the sources of funding for all fixed assets.**

10. Tag and track portable assets, such as monitors and printers, which can easily be lost or stolen.

Disbursement Procedures

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

On all 25 disbursements we reviewed, Crittenton did not mark the supporting documentation "Paid", or cross-reference the documentation to the check number.

Recommendation

11. Crittenton management ensure all supporting documentation marked "Paid" and referenced to the check number to prevent reuse or duplicate payments.

Personnel and Payroll Records

Section B.3.1 of the A-C Handbook states that timecards or time reports must be prepared for each pay period, and all timecards or time reports must be signed in ink by the employee and the employee's supervisor to certify the accuracy of the reported time. Two of ten timecards reviewed (20%) were not signed by the employees' supervisor.

Recommendation

12. Crittenton management ensure timecards are signed by a supervisor.

Independent Contractors

The Agency has an internal policy of obtaining at least three written estimates from independent contractors when the contract amount is over $1,000. The Agency was unable to provide written estimates for a landscape provider and a floor covering company. In the case of the landscape provider, the Agency indicated that the cost of services had been agreed upon verbally. For the floor covering company, the Agency indicated that although it is their policy to obtain at least three written estimates before contracting for the job over $1,000, they were unable to locate the documentation.

The Agency should ensure it adheres to its internal policy of obtaining written estimates from independent contractors.

Recommendation

13. Crittenton management ensure that at least three written estimates are obtained for contracts over $1,000.

Bank Reconciliations

A-C Handbook Section B.1.4 states monthly bank reconciliations should be prepared within 30 days of the bank statement date and be reviewed by management for appropriateness and accuracy. The bank reconciliations should be signed and dated by both the preparer and the reviewer and reconciling items should be resolved timely.

The Agency did not complete bank reconciliations for the last three months of their fiscal year. The nine reconciliations that were completed were not signed, or dated by the preparer or reviewer, and, as a result, we were unable to determine if the reconciliations were prepared timely. In addition, seven of 33 checks that were listed as outstanding on the November 30, 2005 statement had not cleared the bank within eleven months. Management was unaware of the condition.

Recommendations

Crittenton management:

14. Ensure bank reconciliations are prepared within 30 days of the bank statement date, are signed and dated by both the preparer and the reviewer, and reviewed by management for appropriateness and accuracy.

15. Ensure reconciling items are resolved timely.