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 17, 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 SHAMROCK COTTAGE, INC - A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of Shamrock Cottage, Inc. (Shamrock or Agency) from January 1, 2006 through December 31, 2006. Shamrock was licensed to operate two group homes (GH), each with a resident capacity of six children. Shamrock was located in the Fifth Supervisorial District.

The Department of Children and Family Services (DCFS) contracted with Shamrock to care for foster children placed in the Agency's homes. DCFS paid Shamrock $5,613 a month for each child, based on a rate determined by the California Department of Social Services, for a total $774,481.

Effective August 8, 2007, Shamrock terminated their County contract due to financial difficulties. DCFS indicated that all County-placed children were removed by that date.

Scope

Our review was intended to determine whether Shamrock complied with its contract terms, and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated Shamrock's expenditure and revenue documentation, internal controls and compliance with applicable federal, State and County fiscal guidelines governing GH funds.

Summary of Findings

We identified $2,358 in questioned costs. In addition, we noted that Shamrock needed 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 appropriate, collect the disallowed amounts. In addition, if DCFS contracts with Shamrock in the future, DCFS needs to ensure the Agency takes action to address the recommendations in this report and to ensure that actions result in permanent changes.

Review of Report

A draft report was provided to Shamrock's management for their review and comments. However, the Agency declined a formal exit conference. If the Agency provides a response to the report, 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 Shamrock's management and staff for their cooperation during our review.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (626) 293-1101.

JTM:MO: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
Barbara Luna, Executive Director, Shamrock Cottage, Inc
Board of Directors, Shamrock Cottage, Inc
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept. of Social Services
Sheila Dupuy, Bureau Chief, Foster Care Rates Bureau, CA Dept. of Social Services
Public Information Office
Audit Committee
Commission for Children and Families

Shamrock Cottage, Inc.
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $2,358 in unallowable and unsupported/inadequately supported expenditures. Details of these costs are discussed below.

Applicable Regulations and Guidelines

Shamrock was required to operate its group homes in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, including Exhibit C-1, 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 a $500 penalty paid to State Department of Social Services L.A. and Tri-Coastal Counties Children's Residential for a failure to correct a reported deficiency. According to Circular Section 16, penalty payments are not allowable.

Inadequately Supported Costs

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

We identified $1,858 in inadequately supported costs, consisting of $1,209 in petty cash expenditures and $649 in payments to vendors. Shamrock did not provide original receipts or invoices to support these expenditures.

Recommendations

1. **DCFS management resolve the $2,358 in questioned costs and, to the extent possible, collect any disallowed amounts.**

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

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

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

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

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

Accounting for Fixed Assets

A-C Handbook Section B.4.2 requires that agencies maintain a current list of fixed assets, including the item description, serial number, date of purchase, acquisition cost and sources of funding. Section 53.2 of the County Contract defines a fixed asset as tangible personal property with a useful life of more than two years and an acquisition cost of $5,000 or more.

Shamrock's fixed asset list did not include the serial number, date of purchase, acquisition cost and source of funding as required by the A-C handbook. In addition, we noted that equipment in the Agency's administrative office was not consistently tagged or recorded on the Agency's fixed asset log. Although these items do not meet the fixed assets definition in section 53.2 of the County contract, it is good business practice to tag and track portable property having a useful life of more than two years.

Recommendation

4. **If DCFS considers contracting with Shamrock in the future, Shamrock management ensure that their fixed assets are properly tagged with an asset identification number, and that the fixed asset listing includes the asset's serial number, date of purchase, acquisition cost and source of funding.**

Disbursement Procedures

The Agency did not post five of 50 transactions we reviewed (10%) to the appropriate general ledger account. For example, Shamrock recorded a training class expense as office supplies. Section A.2.5 of the A-C Handbook states the Agency must consistently post transactions of a similar nature to the same account.

Recommendation

5. **If DCFS considers contracting with Shamrock in the future, Shamrock management ensure that expenditures are consistently recorded to the appropriate account.**

Personnel and Payroll Records

Section B.3.1 of the A-C Handbook states that timecards must be signed in ink by the employee and the employee's supervisor. We reviewed ten timecards and noted six were not signed by the supervisor and one was not signed by the employee.

We also noted the Agency paid one employee $288 for 16 hours of vacation, but did not reduce the employee's vacation balance accordingly. Section B.3.2 of the A-C Handbook states benefit balances should be increased when benefit hours are earned and decreased as hours are used.

Recommendations

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

6. **Ensure timecards are consistently signed by both supervisor and employee.**

7. **Ensure benefit balances are consistently reduced when used, and either collect the $288 paid to the employee, or reduce the employee's vacation balance by 16 hours.**

Independent Contractors

Section A.3.2 of the A-C Handbook states that expenditures for consulting services shall be supported by contracts detailing billing rates and the nature of services to be provided.

Shamrock did not have an agreement with an independent contractor who provided accounting consulting services. The Agency should maintain agreements with all independent contractors, detailing the services being provided and the fees to be paid.

Recommendation

8. **If DCFS considers contracting with Shamrock in the future, Shamrock management ensure that written agreements are maintained with independent contractors.**

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, signed and dated by the preparer and reviewer, and that reconciling items be resolved timely.

Neither the preparer nor reviewer signed and dated bank reconciliations during our review period. As a result, we could not determine if the Agency prepared the reconciliations within 30 days as required. In addition, Shamrock did not resolve outstanding checks in a timely manner. Seven outstanding checks totaling $2,903 from the June 2006 reconciliation had not cleared as of December 31, 2006. Management was unable to determine why the items had not cleared

Recommendation

9. **If DCFS considers contracting with Shamrock in the future, Shamrock management ensure all bank reconciliations are signed and dated by preparer and reviewer, are prepared within 30 days of receiving the bank statement and that all outstanding checks are resolved in a timely manner.**