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May 22, 2008

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

FROM: Wendy L. Watanabe Wendy Watanabe
Acting Auditor-Controller

SUBJECT: **FISCAL REVIEW OF BOURNE, INCORPORATED - A GROUP HOME FOSTER CARE CONTRACTOR**

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

The Department of Children and Family Services (DCFS) and the Probation Department (Probation) contract with Bourne to care for foster care children placed in the Agency's homes. Under the contract, DCFS pays Bourne $4,858 a month per child, based on a rate determined by the California Department of Social Services. Bourne received a total of $585,192 in group home foster care funds from DCFS during 2006.

Scope

The purpose of our review was to determine whether Bourne complied with the contract terms, and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated Bourne's expenditure and revenue documentation, internal controls and compliance with applicable federal, State and County guidelines governing GH foster care funds.

Summary of Findings

We identified $29,238 in unallowable and unsupported/inadequately supported costs. Of this total, $21,283 (73%) was inadequately supported credit card charges for department stores, gasoline and other items. In addition, DCFS and Bourne need to work together to resolve some potential overpayments.

Bourne also needs to more adequately document its board of directors' meetings and strengthen its internal controls over credit card usage, cash disbursements, transaction classification, fixed assets, bank reconciliations and payroll/personnel procedures. Details of our findings are discussed in the attached report.

DCFS needs to resolve the questioned costs and collect any disallowed amounts. In addition, DCFS needs to ensure that Bourne's management takes 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 Bourne's management on January 23, 2008. They will provide their response to the report to DCFS who will prepare a Fiscal Corrective Action Plan and submit directly to your Board. We thank Bourne'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.

WLW:MMO:JS:MM

Attachment

c: William T Fujioka, Chief Executive Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Susan Kerr, Senior Deputy Director, Department of Children and Family Services
Robert B. Taylor, Chief Probation Officer
Charlie Bourne, Executive Director, Bourne, Incorporated
Tim Bourne, Administrator, Bourne, Incorporated
Board of Directors, Bourne, Incorporated
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, California Department of Social Services
Public Information Office
Audit Committee Members
Commission for Children and Families

Bourne, Incorporated
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $2,899 in unallowable costs and $26,339 in unsupported/inadequately supported costs. In addition, DCFS and Bourne need to work together to resolve some potential overpayments. Details of the results of our review are discussed below.

Applicable Regulations and Guidelines

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

- GH Contract, including Exhibit C-2, Auditor-Controller Group Home 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 $2,899 in unallowable expenditures:

- $1,590 in repairs to an employee's personal vehicle from an accident with another employee who was driving the Agency's van on the Agency's premises. Circular Section 22 states that actual losses that could have been covered by permissible insurance are unallowable. The Agency had auto insurance coverage and should have notified their insurance carrier of the accident.

- $940 in unallowable credit card expenses, consisting of $860 in charges for personal items, $44 for alcoholic beverages, $25 for late payment fees and $11 for finance charges. A-C Handbook Section C.1.5 states that only expenditures that are necessary, proper and reasonable are allowable. In addition, Circular sections 3, 16 and 23 states that alcoholic beverages, penalties and interest are unallowable.

- $369 in other unallowable costs, consisting of $205 in non-sufficient funds (NSF) and overdraft fees, and $164 in rental late fees and parking citations. According to the Circular, these fees are unallowable.

Unsupported/Inadequately Supported Costs

The A-C Handbook, Section A.3.2 states that all expenditures shall be supported by original vouchers, invoices, receipts or other supporting documents, and that unsupported expenditures will be disallowed upon audit.

We identified $26,339 in group home expenditures that were either unsupported, or were inadequately supported. Specifically:

- $21,283 in inadequately supported credit card charges, for items such as gasoline, furniture, restaurants, groceries, telephone, video rentals, car washes, internet service, auto supplies and purchases at various department stores. The Agency provided credit card statements and cancelled checks but not original itemized receipts, invoices or other supporting documents, such as vehicle logs. As a result, we could not determine if these expenses were for the group home program.

- $4,170 in inadequately supported costs involving payments for home repairs, food, allowances and clothing expenses. The Agency provided a cancelled check for these expenses but did not provide itemized receipts or other supporting documents. As a result, we could not determine if these expenses were for the group home program.

- $886 in an unsupported payment to Costco. The Agency did not provide a cancelled check, an itemized receipt or any other supporting documents to show that this expense benefited the Agency's group home program.

Recommendations

DCFS management:

1. **Resolve $29,238 in questioned costs and collect any disallowed amounts.**

Bourne's management:

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

3. **Consistently maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts, invoices and vehicle mileage logs.**

Potential DCFS Overpayments

DCFS' records show some potential overpayments. DCFS and Bourne should work together to resolve the overpayments, and DCFS should collect any verified overpayments. Bourne's management should ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

Recommendations

DCFS management:

4. **Work with Bourne to resolve the overpayments and ensure that Bourne reimburses the County for any verified overpayments.**

Bourne management:

5. **Ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted the following internal control weaknesses during our review.

Board Minutes

California Corporations Code Section 6320 requires nonprofit corporations to keep a written record of board meetings.

We noted the Bourne's board of directors minutes do not consistently indicate what actions the board took and why. For example, the entry "Financial Reviewed" appeared in the April 15, 2006 board minutes, but did not disclose what was reviewed, any ensuing discussions among the board members or other conclusions.

Recommendation

6. **Bourne's board of directors ensure that minutes of their meetings include a record of who was present, what actions were taken, what was discussed and the results of all votes taken.**

Accounting and Disbursement Procedures

We noted weaknesses in the Agency's accounting and disbursement procedures:

- The Agency's credit cards were used for personal charges. We identified ten instances totaling $860 where staff used Agency credit cards for personal purchases. Bourne needs to implement a written policy that Agency credit cards must only be used for business expenses. A-C Handbook Section B.2.4 states that credit cards must be adequately protected and usage monitored to ensure that only authorized and necessary items are purchased.

- Seven checks totaling $3,959 were made payable to "Cash." A-C Handbook Section B.2.1 states that checks should not be payable to Cash. The Agency indicated that the checks were used for clothing and child allowances, auto and washing machine repairs, clothing purchases, and paint, patches and repairs to one of the group homes.

- Three of 30 expenditure items were not properly classified on the general ledger. For example, a parking ticket fine was classified as Taxes-City Business License.

- The Agency did not provide a fixed asset list for our review. In addition, the Agency indicated that they did not conduct an inventory of their fixed assets. A-C Handbook Section B.4.2 states that each contractor should maintain a current list of fixed assets, with the item description, serial number, date of purchase, acquisition costs and source of funding. Contractors should also conduct an inventory of fixed assets at least once each year to ensure that all fixed assets are accounted for and maintained in proper working order.

Recommendations

Bourne's management:

7. **Develop a written policy prohibiting the use of Agency credit cards for personal purposes.**

8. **Ensure that checks are not made payable to "Cash."**

9. **Properly classify all expenditures on the general ledger on a consistent basis.**

10. **Maintain a fixed asset list clearly identifying each asset's description, serial number, date of purchase, acquisition cost and source of funding.**

11. Conduct an inventory of fixed assets at least once each year to ensure that all fixed assets are accounted for and maintained in proper working order.

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 be reviewed by management for appropriateness and accuracy. Both the preparer and the reviewer should sign and date the bank reconciliations. Bourne did not provide monthly bank reconciliations for our review. Agency management acknowledged that bank reconciliations were not prepared monthly.

Timely bank reconciliations are necessary to verify the accuracy of the Agency's accounting records and bank balance, as well as identify and investigate any checks that have not cleared the bank within a reasonable period of time.

Recommendations

Bourne's management:

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

13. Ensure the Agency's bank reconciliations are signed and dated by both the preparer and reviewer, and reviewed by management for appropriateness and accuracy.

Payroll/Personnel Controls

CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including employee salary rates. In addition, A-C Handbook Section B.3.1 states that timecards or time reports must be prepared for each pay period, and all timecards or time reports must be signed by the employee and supervisor to certify the accuracy of the reported time.

We sampled the personnel files and payroll records of 12 employees and noted:

- Three employees' personnel files (25%) did not include current salary/pay rate information.
- All four salaried employees did not prepare timecards or time sheets.
- Seven timecards (58%) were not signed by the employees.

- Four timecards (33%) were not signed by the supervisors.

Recommendations

Bourne's management:

14. Ensure employees salary/pay rates are consistently documented and updated in the employees' personnel files.

15. Ensure all Agency employees prepare timecards for each pay period.

16. Ensure the timecards are signed by the employee and a supervisor to certify the accuracy of the reported time.