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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 YOU ARE THE DIFFERENCE FOUNDATION, INC. (LOVING LIFE HOME) - A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of You Are the Difference Foundation, Inc., from January 1, 2006 through December 31, 2006, which operates the Loving Life Home Group Homes (LL Home or Agency). LL Home is licensed to operate two group homes (GH), each with a resident capacity of six children. The Agency is located in the Second Supervisorial District.

The Department of Children and Family Services (DCFS) and the Probation Department (Probation) contract with LL Home to care for foster children placed in the Agency's homes. Under the contract, DCFS pays LL Home $4,858 a month per child, based on a rate determined by the California Department of Social Services. LL Home received a total of $855,827 in group home foster care funds from DCFS during 2006, of which $120,131 was for billings from the previous calendar year.

Scope

The purpose of our review was to determine whether LL Home complied with its contract terms and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated LL Home's accounting records, internal controls and compliance with applicable federal, State and County fiscal guidelines governing GH foster care funds.

Summary of Findings

We identified $503 in unallowable costs and $19,466 in unsupported/inadequately supported costs. In addition, DCFS and the Agency need to work together to resolve potential overpayments.

LL Home also needs to strengthen its internal controls over accounting and disbursements, bank reconciliations, payroll/personnel records, deposit funds timely and properly report financial information to DCFS on the Semi-Annual Expenditure reports. 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 LL Home'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 LL Home's management on February 5, 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 LL Home'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
Robert B. Taylor, Chief Probation Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Susan Kerr, Senior Deputy Director, Department of Children and Family Services
Billie Woods, Executive Director, Loving Life Home
Board of Directors, Loving Life Home
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept. of Social Services
Public Information Office
Audit Committee
Commission for Children and Families

Loving Life Home
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $503 in unallowable costs and $19,466 in unsupported/inadequately supported costs. Details of these costs are discussed below.

Applicable Regulations and Guidelines

LL Home is required to operate its GH 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 $503 in penalties and interest, consisting of $423 in late fees and $80 in finance charges. Penalties and interest are not allowable according to Sections 16 and 23 of the Circular.

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 $19,466 in expenditures that were inadequately supported.

- $19,223 in inadequately supported expenditures for loan repayments, insurance, and utility costs. The Agency provided cancelled checks but did not provide receipts, invoices or other documentation that would clearly indicate that these expenses were program related.

- $243 in inadequately supported petty cash expenses. The Agency provided cancelled checks and bank statements on ATM withdrawals, automatic debits or check card purchases for these expenses. However, the Agency did not provide receipts or invoices.

Recommendations

1. **DCFS management resolve the $19,969 ($503 + $19,466) in questioned costs and collect any disallowed amounts.**

LL Home management:

2. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts and invoices.**

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

Potential DCFS Overpayments

DCFS records show some overpayments made to the Agency. DCFS and the Agency should work together to resolve the overpayments and DCFS should collect any verified overpayments. Loving Life'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 LL Home to resolve the overpayments and ensure that LL Home reimburses the County for any confirmed overpayments.**

LL Home 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 several contract compliance issues and internal control weaknesses. DCFS should ensure that LL Home management takes action to address each of the recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Accounting and Disbursement Procedures

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

- One check for $80 was payable to "Cash". Section B.2.1 of the A-C Handbook states that checks should not be payable to "Cash".

- The check signer and payee were the same person on 21 checks totaling $61,907. Most of the checks were for repayment of loans to the Executive Director. On checks were the signer is also the payee, a second signature by someone independent of the payee (such as a Board member), should be required to verify the appropriateness of the expense. Section B.2.2 of the A-C Handbook indicates that a second signature should be required on all checks.

- The Agency's fixed assets listing is not complete. We noted that the Agency's two vehicles were not included on the fixed assets listing. Section B.4.2 of the A-C Handbook indicates that an agency should maintain a current and complete listing of fixed assets, including the item description, serial number, date of purchase, acquisition cost and sources of funding.

Recommendations

LL Home management:

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

7. **Require two signatures on all checks where the payee and the check signer are the same person.**

8. **Maintain a current and complete fixed assets listing.**

Untimely Deposits

The Agency does not consistently deposit foster care funds timely. There were three County warrants that were cashed/deposited 20 days or more after they were issued. One $1,943 warrant was deposited 67 days after it was issued. Section B.1.2 of the A-C Handbook states that cash receipts totaling $500 or more shall be deposited within one day of receipt. Collections of less than $500 may be held and secured and deposited weekly, or when the total reaches $500.

Recommendation

9. **LL Home management ensure that Los Angeles County warrants are deposited timely into the Agency's bank account in accordance with the 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. LL Homes' monthly bank reconciliations were not signed and dated by the preparer and reviewer. In addition, the printout dates on the reconciliations indicate that they were prepared more than 30 days after the bank statement date.

Recommendations

LL Home management:

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

11. **Ensure that monthly bank reconciliations are prepared within 30 days after the bank statement date.**

Payroll/Personnel Controls

CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including employee salary rates. In addition, 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.

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

- None of the employees' personnel files contained current salary/pay rate information. However, we were able to determine the reasonableness of the employees' salaries/pay rate by comparing them to the Child Welfare League of America (CWLA) Salary Study.

- One employee time sheet (8%) did not have the supervisor's signature.

- One employee time sheet (8%) showed 28 hours more than the amount on the payroll register. The Agency indicated that adjustments to the employee's hours were made but not documented on the time sheet. The Agency should have documented any adjustments to employee hours on the time sheet with the signature and approval of the supervisor.

Recommendations

LL Home management:

12. **Ensure employee salary/pay rates are consistently documented and updated in the employee's personnel file.**

13. **Ensure employee timecards are signed by the supervisor.**

14. **Document any adjustments to employee hours on the time sheet with signature and approval of the supervisor.**

Semi-Annual Expenditure Reports

Section 9 of the Contract requires LL Homes to submit Semi-Annual Expenditure Reports to DCFS. The Agency submitted the reports to DCFS as required for 2006. However, both reports showed total year-to-date revenue and expenditures of $408,072. Since the Agency reports on a calendar year basis, the January through June 2006 report should have reported the total amounts for 6 months, and the July through December 2006 report should have reported the totals for the full year. The Agency's general ledger for all of 2006 showed total revenues of $843,368 and expenditures of $789,444, which did not equal the amounts reported on the July through December 2006 Semi-Annual Expenditure Report.

The Agency should revise the Semi-Annual Expenditure Reports for 2006 to show the Agency's actual revenue and expenditures and resubmit the reports to DCFS.

Recommendations

LL Home management:

15. **Revise the Semi-Annual Expenditure Reports for 2006 to show the Agency's actual revenue and expenditure amounts and resubmit the reports to DCFS.**

16. **Ensure the Semi-Annual Expenditure Reports are accurate and agree to the general ledger before being submitted to DCFS.**