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May 27, 2008

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

FROM: Wendy L. Watanabe FOR
Acting Auditor-Controller

SUBJECT: **FISCAL REVIEW OF T&T HOME FOR BOYS, INCORPORATED, – A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on T&T Home for Boys, Incorporated, (T&T or Agency) fiscal operations from July 1, 2003 through June 30, 2004. T&T is licensed to operate one group home (GH) with a resident capacity of six children. T&T is located in the Second Supervisorial District.

The Department of Children and Family Services (DCFS) contracts with T&T to care for foster care children placed in the Agency's home. Under the contract, DCFS pays T&T $4,479 a month for each child, based on a rate determined by the California State Department of Social Services (CDSS).

DCFS also contracted with T&T to operate an Emergency Shelter Program (ESP) to provide emergency short-term placements for adolescents taken into protective custody or who were in a transitional program awaiting long-term placement. However, T&T only provided ESP services for three months between July and September 2003. Under this agreement, T&T reserved two beds for ESP placements.

T&T received a total of $303,734 in foster care funds from DCFS for the operation of the GH and $12,859 in ESP funds during the audit period.

Scope

The purpose of our review was to determine whether T&T complied with its contract terms and appropriately accounted for and spent foster care and ESP funds on allowable and reasonable expenditures. We also evaluated T&T's expenditure and revenue documentation, internal controls and compliance with applicable federal, State and County fiscal guidelines governing group home foster care and ESP funds.

Summary of Findings

We identified $15,467 in questioned costs, including $1,631 in unallowable costs, $9,649 in unsupported/inadequately supported expenditures and $4,187 in unaccounted for clothing payments. In addition, DCFS and the Agency need to work together to resolve potential overpayments. T&T also needs to strengthen its internal controls over accounting procedures, disbursements, payroll and bank reconciliations. 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 T&T 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 T&T management on February 8, 2008. They will provide their response to the report directly to DCFS who will prepare a Fiscal Corrective Action Plan and submit directly to your Board. We thank T&T'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

Attachments

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
Darlene Theragood, Executive Director, T&T Home for Boys Incorporated
Board of Directors, T&T Home for Boys 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

T&T Home for Boys, Inc.
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $1,631 in unallowable costs, $9,649 in unsupported/inadequately supported costs and $4,187 in unaccounted for clothing payments. Details of these costs/revenues are discussed below.

Applicable Regulations and Guidelines

T&T is required to operate its group home (GH) in accordance with the following applicable 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 $1,631 in unallowable GH expenditures, as follows:

- $1,337 in late payment fees. Penalty and interest payments are not allowable according to Section 16 and 23 of the Circular. As discussed in more detail in the Contract Compliance and Internal Controls section of this report, a substantial portion of the questioned late payment fees are penalties for late payment of payroll taxes.
- $294 in unallowable petty cash expenditures, consisting of $193 in personal expenditures, $87 in items expensed twice and $14 in which the incorrect receipt total was used.

Unsupported/Inadequately Supported Costs

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

T&T was unable to provide adequate documentation to support $9,649 in GH expenditures:

- $6,680 in unsupported and inadequately supported expenditures for items such as workers' compensation insurance, employee reimbursements, repairs and independent contractor payments. The Agency was either unable to provide any supporting documentation, such as itemized receipts, to indicate what was actually purchased, or the documentation provided was inadequate to establish that the expenditures were reasonable and allowable. In addition, the Agency did not have current contracts with three of the five independent contractors reviewed.

- $1,825 in inadequately supported payroll expenditures. The authorized salary rate contained in the personnel file of one Agency employee was significantly less than the salary paid to the employee. In addition, we noted that other employees with the same payroll title who started at approximately the same time as this individual were paid approximately $165 less per two-week pay period.

- $1,024 in excessive gasoline purchases. T&T spent a total of $2,994 on gasoline during the contract year. Based on the number of miles the GH vehicle was driven, and using the Agency's mileage log, estimated fuel consumption and average gasoline prices during the review period, the Agency should have spent approximately $1,970 on gasoline. A-C Handbook Section 1.3 states that only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the Program are allowable.

- $120 in inadequately supported depreciation expense for a refrigerator. The Agency did not have a receipt or invoice showing the refrigerator's acquisition cost. As a result, we are unable to determine if the depreciation expense was appropriate.

Depreciation charged for the Agency's van is overstated. Specifically, the Agency did not take into account the salvage value of the vehicle in determining the depreciable cost of this asset. The Agency needs to develop an estimate of the salvage value of the van at the end of its five-year economic life, recalculate the vehicle's depreciable cost and adjust the depreciation charge to the Group Home program accordingly.

Unaccounted for Clothing Payments

We were unable to verify that $4,187 in clothing payments were used for allowable GH activities. T&T received $4,815 in clothing payments from DCFS. However, these payments were not deposited into the Agency's bank account. T&T management indicated it was their practice to cash clothing payment checks, and use the cash to buy clothing for the GH children. However, T&T could only provide $628 in receipts for clothing purchases which had not been reimbursed from their petty cash or Agency checks. The remaining $4,187 in clothing payments is a questioned cost. T&T should discontinue cashing clothing payments and begin depositing all DCFS payments into an Agency bank account and maintain supporting documentation for clothing expenditures.

This will improve accountability over these funds and reduce the risk of funds being lost or misappropriated.

Recommendations

1. **DCFS management resolve the $15,467 ($1,631+$9,649+$4,187) in questioned costs and unaccounted for clothing payments and collect any disallowed amounts.**

T&T 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. **Determine the salvage value of the Agency's van, recalculate the depreciable cost of the van, recalculate the depreciation charged to the County's GH contract, and adjust the depreciation charge as appropriate.**

4. **Discontinue cashing clothing checks and begin depositing these payments into an Agency bank account when they are received.**

Potential DCFS Overpayments

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

Recommendation

5. **DCFS and T&T resolve the overpayments and DCFS should collect any verified amounts.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several contract compliance issues and internal control weaknesses in addition to those already mentioned. DCFS should ensure that T&T management takes action to address the internal control recommendations in this report and monitor to ensure the actions result in permanent changes.

Separate Cost Centers

T&T did not establish a separate cost center for the Emergency Shelter Program (ESP), which was operated for approximately three months during the audit period. As a result,

T&T commingled the ESP and GH funds. The A-C Handbook requires contractors who provide services under multiple contracts to allocate expenditures that benefit different contracts on an equitable basis. The manual also requires that revenues and expenditures from different sources be clearly identifiable for each source. Because T&T only operated the ESP for three months, the ESP revenue received was small (approximately 4% of total revenue), and the ESP was closely related to the Agency's Group Home activities, we are not concerned with the lack of a separate cost center for the ESP. However, if T&T operates additional programs in the future, T&T needs to ensure it accounts for the cost of each program separately through the use of separate cost centers as required by the A-C Handbook.

Recommendation

6. **T&T management ensure it accounts for the cost of each program separately through the use of separate cost centers.**

Disbursement Procedures

We reviewed T&T disbursement procedures and noted:

- T&T did not pay its payroll taxes on time. As noted in the Unallowable Costs section of this report, T&T incurred $1,287 in penalties and interest costs, mostly for late payment of payroll taxes. T&T indicated that it had cash flow problems during the review period, and this was why tax deposits were not made timely. T&T management needs to ensure that its payroll tax deposits are made timely to avoid penalties and interest. In addition, based on T&T management's claim of on-going cash flow problems, DCFS needs to monitor the Agency to ensure the cash flow issues do not affect the services to placed children, and require the Agency to provide documentation that it is paying its payroll taxes timely.

- T&T does not consistently write or stamp "Paid" on vendor invoices to prevent re-use. In addition receipts were not consistently cross-referenced to a check number. We reviewed 92 disbursements and noted:

  - 57 (94%) items were not marked "Paid" and were not referenced to a check
  - Two (3%) items were not marked "Paid"
  - Two (3%) were not cross-referenced to a check number

  To prevent duplicate payments and to tie invoices to payments, T&T should ensure that they consistently mark invoices/receipts "Paid" and note the check number on the invoice/receipt.

Recommendations

T&T management:

7. **Ensure payroll tax deposits are made timely to avoid penalties and interest.**

8. **Ensure all vendor invoices and invoices/receipts are consistently marked "Paid" and are referenced to check numbers upon payment.**

DCFS management:

9. **Monitor T&T to ensure that cash flow issues do not affect services to placed children.**

10. **Require the Agency to submit documentation that it is paying its payroll taxes timely.**

Accounting Policies and Practices

We reviewed T&T's accounting policies and practices and noted the following:

- T&T does not maintain an accounts receivable ledger. As a result, the Agency cannot readily identify over/under payments.

- T&T's financial records as of June 30, 2004 show $13,894 owed to the Executive Director (ED) and Administrator for loans to the Agency used to cover petty cash shortages and use of a personal vehicle. T&T provided three Promissory Notes totaling $12,894 to support the loans and indicated that the remaining $1,000 was related to the trade-in value of the ED's personal vehicle on the purchase of a new vehicle for the Agency. However, T&T was not able to provide us with any specifics as to what was purchased with these loaned funds, or evidence that the loans were deposited into and disbursed from the Agency bank account, etc. If T&T cannot document that the loaned funds were used for GH purposes, the Agency should reduce the amount owed to the staff accordingly.

- T&T deposited 40% of DCFS' payments (55 of the 137 County issued warrants) an average of nine days after the warrant issue date. Forty-seven of the 55 warrants were over $500. The A-C Handbook Section 1.2 states that cash/checks received totaling $500 or more must be deposited within one day of receipt. The Agency needs to ensure that County payments are deposited timely. Many agencies that contract with the County have their payments deposited directly into their bank account. T&T should consider direct deposit to improve the timeliness of deposits and security over County payments.

- T&T's clothing and petty cash logs showed several entries where the Agency expensed returned items, expensed the same items twice, wrote over receipt dates and totals, or expensed non-clothing items in the clothing log. Management needs to ensure that its logs accurately reflect actual expenditures.

Recommendations

T&T management:

11. Ensure receipts totaling $500 or more are deposited within one day.

12. Reduce the Officer's Payable in the Agency's financial records if the amount of the payable cannot be adequately supported.

13. Maintain an accounts receivable ledger for the County GH Program.

14. Ensure clothing and petty cash logs accurately reflect actual expenditures.

Payroll Records

CDSS-MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including salary rates. A review of various payroll and personnel records disclosed the following:

- Three of ten employee personnel folders (30%) did not contain the employees' current authorized salary rates. T&T should ensure personnel files contain current salaries/hourly wages approved by management.

- Three of ten employee timecards (30%) were not signed by the employee, and none of the ten timecards were signed by a supervisor as required by the A-C Handbook.

Recommendations

T&T management:

15. Ensure personnel files contain current salaries/hourly wages approved by management.

16. Ensure employees and supervisors 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 T&T's bank reconciliations were not signed and dated. Therefore, we were unable to determine whether the bank reconciliations were reviewed for appropriateness and accuracy.

Recommendation

17. T&T management ensure the Agency's bank account reconciliations are signed and dated by the reviewer.