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**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 8, 2017

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

FROM: John Naimo
Auditor-Controller

SUBJECT: **DEPARTMENT OF CHILDREN AND FAMILY SERVICES - CHILDREN'S
TRUST FUND UNIT REVIEW**

The Department of Children and Family Services (DCFS or Department) established the Children's Trust Fund to pay for the special needs (e.g., clothing, enrichment activities, etc.) of children in their care that are not funded by other sources. DCFS' Children's Trust Fund Unit (CTFU or Unit) is responsible for soliciting donations and organizing fundraising events to raise money for the Children's Trust Fund. CTFU also coordinates other departmental events throughout the year, including a summer camp program and the Spark of Love Toy Drive.

At the request of DCFS management, we have completed a review of CTFU operations. Our review primarily focused on evaluating CTFU fundraising activities and collections, and the Unit's management of the summer camp program and Spark of Love Toy Drive. Our review included examining records, assessing internal controls, and interviewing CTFU management and staff.

Summary of Findings

We identified significant issues involving every aspect of CTFU's operations, including unaccounted for donations and funding. Many of these issues were caused by a lack of management oversight, staff negligence, and complete disregard for internal controls. The following is a summary of the significant issues we identified:

- **Unaccounted for Donations:** CTFU did not record any ticket revenue in County bank accounts from the 2013 One Child at a Time (One Child) celebrity basketball game. We noted that a crowd of people were in attendance (e.g., event pictures). In addition, the only revenue recorded for the event were donations totaling approximately \$200. We also identified some additional unaccounted for donations, totaling \$22,200. It should also be noted that CTFU employees created and marketed a One Child website separate from DCFS' website that instructed donors to send donations to a private post office box with checks made payable to "One Child at a Time." We did not identify a County business need for any of these practices.
- **Fundraising Not Effective:** Some of CTFU's fundraising events generate minimal income or result in losses. In addition, DCFS' operating costs for CTFU are at least \$380,000 more per year than the Unit actually generates in income.
- **Camp Overpayments and Inappropriate Funding Use:** We sampled records of 66 children for whom the Department pre-paid camp fees and identified \$9,900 in payments for 28 children who did not appear to attend camp. We also noted that children inappropriately enrolled in more than one camp, camp fees were paid twice for the same youth, and the Department paid camp fees for children who did not meet the eligibility requirements established by the funding source.
- **Spark of Love Toy Drive Mismanagement:** The Spark of Love Toy Drive is an annual event that distributes donated new toys to underserved children in the community during the holiday season. CTFU is responsible for distributing toys to DCFS' regional offices and nonprofit community organizations (e.g., churches, schools). We noted that CTFU inappropriately distributed toys worth \$122,000 to ineligible organizations (not tax-exempt). In addition, CTFU's warehouse had toys worth \$70,000 remaining from prior events that were never distributed, despite there being unfulfilled toy requests from legitimate nonprofits.
- **Inappropriate Event Ticket Distributions:** CTFU occasionally receives donated event tickets (e.g., sporting events, amusement parks) that are supposed to be issued to DCFS' regional offices for distribution to children in DCFS' care. We identified \$21,000 in event tickets that were issued to outside agencies instead of DCFS' regional offices. We also noted that CTFU staff could not account for \$12,000 in missing event tickets.

Given the serious and pervasive nature of our findings, the Department should consider disbanding CTFU. Many of CTFU's goals may be more appropriately pursued by establishing partnerships with legitimate philanthropic organizations. If DCFS chooses to continue CTFU operations, they need to take timely corrective action to ensure CTFU operates responsibly, and maintain close oversight of its operations and performance.

The detailed findings and recommendations of our review are included in Attachment I.

Review of Report

We discussed the results of our review with Department management. They generally agreed with our findings and recommendations. The Department's attached response (Attachment II) describes the corrective action they have already taken and indicates that they will provide a more detailed response to your Board within 60 days. It should be noted that we met with Department management during our review to advise them of our preliminary findings. Administrative transfers were enacted shortly thereafter to move staff who appeared to have had the most involvement with the findings.

We thank DCFS management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:ZP

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Brandon T. Nichols, Acting Director, Department of Children and Family Services
Daryl L. Osby, Fire Chief, Fire Department
Audit Committee
Public Information Office

**DEPARTMENT OF CHILDREN AND FAMILY SERVICES
CHILDREN'S TRUST FUND UNIT REVIEW**

Background and Scope

The Department of Children and Family Services (DCFS or Department) established the Children's Trust Fund to pay for the special needs (e.g., clothing, enrichment activities, etc.) of children in their care that are not funded by other sources. DCFS' Children's Trust Fund Unit (CTFU or Unit) is responsible for soliciting donations and organizing fundraising events to raise money for the Children's Trust Fund. CTFU also coordinates other departmental events throughout the year, including a summer camp program and the Spark of Love Toy Drive (Spark of Love or Toy Drive).

At the request of DCFS management, we have completed a review of CTFU operations. Our review primarily focused on evaluating CTFU fundraising activities and collections, and the Unit's management of the summer camp program and Toy Drive. Our review included examining records, assessing internal controls, and interviewing CTFU management and staff.

Management Oversight

We identified significant issues involving every aspect of CTFU's operations (described in detail throughout our report), including unaccounted for donations and funding. Many of the issues were caused by a lack of management oversight, staff negligence, and ignorance to and/or complete disregard for internal controls. It should also be noted that the head manager over CTFU resigned shortly after we started our review. Given the serious and pervasive nature of our findings, DCFS should consider disbanding the Unit. Many of CTFU's goals may be more appropriately pursued by establishing partnerships with legitimate philanthropic organizations. If DCFS management chooses to continue CTFU operations, they need to take timely corrective action to ensure CTFU operates responsibly, and maintain close oversight of its operations and performance.

Recommendations

Department of Children and Family Services management:

- 1. Consider disbanding the Children's Trust Fund Unit.**
- 2. Take timely corrective action to ensure the Children's Trust Fund Unit operates responsibly, and maintain close oversight of its operations and performance.**

Fundraising

CTFU's primary purpose is to organize fundraising events and solicit donations to raise money for the Children's Trust Fund. They generally hold two large events each year;

the All for the Love of Kids annual awards benefit and the One Child at a Time (One Child) celebrity sporting event. We reviewed CTFU's fundraising accountability and outcomes, and identified the significant issues below.

Fundraising Accountability

We reviewed CTFU's accounting of fundraising proceeds for the 2015 One Child celebrity football game, the 2014 All for the Love of Kids event, and the 2013 One Child celebrity basketball game, and identified some unaccounted for donations, as discussed below. It should also be noted that there are likely more occurrences that we were not able to identify due to substantial deficiencies in CTFU's recordkeeping.

- **2013 One Child Celebrity Basketball Game:** No ticket revenue was recorded in a County bank account from the 2013 One Child celebrity basketball game. We noted that a crowd of people were in attendance (e.g., pictures from the event). The only revenue recorded for the event were donations totaling approximately \$200. In addition, it appears CTFU received \$1,700 from the basketball game ticket sales that were never deposited in a County bank account.
- **2015 One Child Celebrity Football Game:** It appears CTFU received \$800 from the 2015 One Child celebrity football game ticket sales that were never deposited in a County bank account. DCFS has no record of where the money was deposited.
- **Pledged Donations:** CTFU issued a thank you letter in advance to a donor who agreed to donate \$5,000. However, the funds were never deposited in a County bank account, CTFU and the donor do not have a record of the donation, and there were no records available indicating that the donor defaulted on the pledge.
- **In-Kind Donations:** CTFU solicits in-kind donations for various raffles and silent auctions. We identified unaccounted for sports memorabilia and jewelry valued at \$8,400, that could not be located, and there was no documentation available indicating that the items were included in a raffle or auction.
- **Event Tickets:** CTFU could not account for \$8,000 in missing event tickets. The Unit could not provide an explanation for the missing tickets because they do not reconcile ticket sales to ticket inventory.

In addition, we noted that CTFU employees created and marketed a One Child website separate from DCFS' website that instructed donors to send donations to a private post office box with checks made payable to "One Child at a Time."

We also noted that some donations from All for the Love of Kids events are held by a nonprofit agency. These donations are generally from corporate donors who prefer using intermediaries instead of donating directly to governmental entities. Donations

are not transferred to the Children's Trust Fund. Instead, the nonprofit agency distributes the funds based on direction from CTFU; primarily for event expenses. CTFU should have requested the forwarding of the funds to the Department's fiscal operations for deposit into County accounts, and then expended the funds in accordance with County guidelines (e.g., appropriate level review). At the time of our review, the nonprofit agency held approximately \$14,000 in donations on behalf of CTFU. In addition, CTFU previously worked with a different nonprofit agency, which dissolved, and the funds they held are unaccounted for (at least \$14,000 based on available records).

Recommendations

Department of Children and Family Services management:

3. **Take appropriate disciplinary action for any employees who are found to have violated County or Department of Children and Family Services policies including, but not limited to, failure to properly account for Children's Trust Fund Unit funds, and failure to exercise fundamental supervision and management of Children's Trust Fund Unit operations.**
4. **Develop procedures that account for all donations received (including event ticket sales, etc.), identify any missing donations (e.g., not deposited), and promptly follow up on any discrepancies.**
5. **Identify and immediately deposit all donations held by outside entities into the Children's Trust Fund.**

Fundraising Outcomes

We reviewed revenue generated by the three fundraising events discussed earlier and compared them to the direct costs associated with organizing the events. The following table summarizes the results of the comparison:

TABLE 1: SUMMARY OF FUNDRAISING EVENT REVENUE AND COSTS			
FUNDRAISING EVENT	REVENUE	COSTS	INCOME (LOSS)
ALL FOR THE LOVE OF KIDS (2014)	\$ 31,200	\$ 3,900	\$ 27,300
ONE CHILD AT A TIME - CELEBRITY FOOTBALL GAME (2015)	18,200	18,000	200
ONE CHILD AT A TIME - CELEBRITY BASKETBALL GAME (2013)	200	5,900	(5,700)
TOTAL	\$ 49,600	\$ 27,800	\$ 21,800
NOTE: The significant revenue variance for the One Child at a Time Celebrity Basketball Game was largely due to the lack of recorded ticket revenue discussed earlier.			

CTFU does not appropriately plan events and review results from a fiscal perspective to ensure the events are worthwhile and generating income. In addition, they do not share event outcomes with DCFS management. While the All for the Love of Kids event was

successful, part of the income was used to subsidize minimal income and losses from One Child events. Given that One Child events operate at breakeven or cost more than revenue generated, it may be prudent to discontinue them in the future.

We also evaluated CTFU's overall fundraising efforts in relation to their personnel costs (e.g., salaries, employee benefits) for the three fiscal years ending June 30, 2015, and summarized the results below:

TABLE 2: SUMMARY OF OVERALL FUNDRAISING	
THREE FISCAL YEARS ENDING JUNE 30, 2015	
CHILDREN'S TRUST FUND UNIT - FUNDRAISING INCOME	\$ 47,000
CHILDREN'S TRUST FUND UNIT - PERSONNEL COST	1,200,000
DIFFERENCE (THREE YEARS)	\$(1,153,000)
DIFFERENCE (ANNUAL AVERAGE)	(384,333)

DCFS incurs at least \$380,000 more a year in CTFU staffing costs than the Unit actually generates in income. Although CTFU also coordinates other services (e.g., summer camp program), their primary purpose is generating income for the Children's Trust Fund. Since CTFU only generates minimal income relative to their size, DCFS should evaluate whether the Unit needs dedicated full-time staff, and/or determine if it would be more economical to absorb their functions elsewhere in the Department.

In addition, CTFU is holding event income and not transferring it to the Children's Trust Fund timely (where it will ultimately be spent to benefit DCFS children). The CTFU has an average monthly balance of \$46,000 in a County account meant to temporarily hold event income. Income should be transferred to the Children's Trust Fund at the conclusion of every event.

Recommendations

Department of Children and Family Services management:

- 6. Develop financial plans in advance of carrying out fundraising events (e.g., minimize costs), evaluate actual results, report the results to management, and consider discontinuing unsuccessful events.**
- 7. Evaluate if the Children's Trust Fund Unit needs dedicated full-time staff, and/or determine if it would be more economical to absorb their functions elsewhere in the Department.**
- 8. Ensure fundraising event income is transferred to the Children's Trust Fund at the conclusion of every event.**

Summer Camp Program

DCFS has a summer camp program for children in the Department's care. Camps are administered by outside agencies at offsite locations. CTFU coordinates the program, including camp selection, application and enrollment, and invoice review and approval.

Children are permitted to attend one camp per year at a cost of approximately \$350 per child. In 2015, CTFU issued \$336,000 in summer camp payments to eight different camps. Camp payments are funded by the State Specialized Care and Incentive Assistance Program (SCIAP), which imposes specific eligibility requirements (e.g., children in group homes and foster family agency homes are not eligible). We evaluated DCFS' summer camp program and identified the following significant issues:

Camp Selection Process

CTFU does not have a formal process for selecting camps to participate in the program. They could not provide explanations or any documentation demonstrating why certain camps were selected. We also noted that most of the camps were not accredited by the American Camp Association (requires compliance with approximately 300 standards governing staff qualifications, emergency management, etc.) or licensed by the State. Selecting camps with accreditation and licensure would help ensure children attend legitimate camps of a high quality, and could potentially limit County liability.

In addition, CTFU's camp payments exceeded the Department's delegated purchasing authority, but they did not request the Internal Services Department's (ISD) involvement to procure services, as required by County policy. CTFU also did not establish binding agreements (e.g., contract) with the camps that specify program terms (e.g., services, costs), which would have occurred with ISD involvement.

Lastly, CTFU generally pays all camps a flat rate of \$350 per child, even though the camps do not offer equivalent services. Some camps are a week in duration and provide lodging, meals, and multiple activities, while others are day camps with limited activities. This does not appear to be equitable based on the level of services provided.

Recommendations

Department of Children and Family Services management:

9. **Formalize the camp selection process, include requirements that all camps maintain American Camp Association accreditation and State license, establish agreements (e.g., contract) with selected camps that specify program terms, and consult with the Internal Services Department, if necessary, to ensure the appropriate process is followed.**

- 10. Reevaluate camp fees to ensure they are equitable and consistent with services camps provide.**

Camp Enrollment and Payment Process

CTFU organizes summer camp fairs for regional offices where camp representatives provide information to caregivers and enroll children in the camps. Caregivers complete a standardized application, and submit it to the camp they want their children to attend. At the end of the fairs, camp representatives provide copies of applications to regional office staff, and invoice CTFU in advance for the children they enrolled. The application copies are then routed to CTFU for invoice verification and payment purposes. CTFU will also request application copies from the camps if they do not have them on file.

We noted that CTFU's enrollment and payment process lacks sufficient internal controls to mitigate risks. For example, the process will not detect children enrolling in multiple camps, camps invoicing for children who did not enroll, and payments for children who were absent from camp.

An appropriate process should start with camp representatives only providing information at the fairs (not accepting applications). Regional office staff should receive applications from caregivers, log enrollees in each camp, and submit the log and applications to CTFU. CTFU should then verify children are eligible for camps, check for multiple enrollments, and notify camps of the confirmed enrollees. In addition, camps should be required to provide sign-in sheets with invoices at the conclusion of camp. Lastly, DCFS payment processing staff need to compare camp invoices to logs, applications, notifications, and sign-in sheets before issuing payments.

Recommendation

- 11. Department of Children and Family Services management develop new camp enrollment and payment processes and procedures that include sufficient internal controls to mitigate risks.**

Camp Overpayments and Inappropriate Funding Use

Our review noted multiple incidents where DCFS made payments to camps for children who it appears did not attend. We contacted caregivers of 66 children for whom the Department pre-paid camp fees, and identified \$9,900 in camp payments for 28 (42%) children who were either absent or otherwise did not attend. We also reviewed camp records for other youth and noted additional camp fee overpayments and payments for ineligible youth as follows:

- **Multiple Payments:** We identified 15 children who were enrolled in more than one camp. The payments for the additional camps totaled \$4,900. As indicated earlier, children are only allowed to attend one camp each year. We also noted

that DCFS at times paid camps twice for the same children, resulting in overpayments totaling \$1,100.

- **Ineligibility:** We noted that 46 (66%) of the 70 children we reviewed were either ineligible for camps or DCFS inappropriately used funding, with payments totaling \$15,800. Specifically, we identified 30 children were ineligible for SCIAP funding (e.g., children placed in group homes, foster family agency homes), 11 children were no longer in DCFS' care at the time of the camp, and five children did not have any case record in DCFS' systems.

Implementing an enrollment and payment process with appropriate internal controls, as discussed earlier, would have likely prevented these issues from occurring.

Recommendations

Department of Children and Family Services management:

- 12. Review all payments made to camps during the preceding years, recover any inappropriate payments, and ensure future camp fees are paid with appropriate funds.**
- 13. Establish controls to ensure camp enrollments are limited to one camp per child and camps are only paid once for each eligible child who is enrolled and attends.**
- 14. Assign staff independent of the camp program to verify that clients actually attended camps.**

Spark of Love Toy Drive

The Toy Drive is an annual collaboration between ABC7, DCFS, and the County Fire Department. The Toy Drive distributes donated new toys to underserved children in the community during the holiday season. CTFU is responsible for receiving toys, maintaining the toy inventory, and distributing toys to DCFS' regional offices and nonprofit organizations (e.g., churches, schools). They also screen and approve the nonprofit organizations that receive toys.

During the 2014 Toy Drive, CTFU received at least 44,000 toys (valued at least \$10 each), totaling \$440,000. Maintaining appropriate toy oversight is important because toys can easily be converted to cash (e.g., online marketplaces), especially during the holiday season. We reviewed documentation for the 2014 Toy Drive, and noted the following significant issues:

Toy Inventory Management

CTFU does not maintain perpetual inventory records for Spark of Love toys. They only report on toys received, toys distributed, and a physical count of remaining toys at the end of the event. As a result, CTFU cannot identify toys on-hand during the event or any missing items. We also noted that CTFU's reports were not accurate. For example, toy delivery records identified approximately 2,300 more toys received than CTFU reported. We created perpetual inventory records using available supporting documentation (e.g., delivery records, distribution sheets) and completed a physical inventory count to determine if there were any discrepancies. We identified 2,500 toys that were unaccounted for, valued at \$25,000. Due to the inventory and reporting issues identified above, it is not clear whether toys were missing or if there were recordkeeping issues.

The Fire Department took over responsibility for toy inventory management for the 2015 Toy Drive, and collected the remaining toys from CTFU's warehouse. If CTFU assumes responsibility for the toy inventory in the future, they need to develop accurate perpetual inventory records, complete physical inventories, and follow up on any discrepancies.

Recommendation

- 15. Department of Children and Family Services management develop accurate perpetual inventory records for donated toys, complete toy physical inventories, and follow up on any discrepancies, if the Department assumes responsibility for the toy inventory.**

Toy Distributions

CTFU distributes Spark of Love toys to DCFS' regional offices and nonprofit organizations. The nonprofit organizations must submit applications to request toys and attach a copy of their tax exempt ruling from the Internal Revenue Service (IRS). CTFU reviews and approves the applications, and contacts these organizations to schedule toy pick up. In 2014, CTFU distributed toys to 167 different organizations. We reviewed the toy applications and distributions, and noted the following issues:

- **Missing Application Information:** We noted that 17 (10%) of the organizations that received toy distributions did not submit applications.
- **Ineligible Organizations:** CTFU does not verify the nonprofit tax exempt status of organizations when reviewing and approving applications. We noted that 130 (78%) of the organizations that received toys did not submit their IRS tax exempt ruling. It appears as though 60 (36%) organizations were not tax exempt based on our review of the IRS' public records. CTFU distributed 12,200 toys, valued at \$122,000, to these organizations. The tax exempt ruling is important because it adds a measure of credibility to each organization's actual existence and that it more likely serves a charitable cause.

- **Organizations Outside County:** Spark of Love operates throughout Southern California, and toys are supposed to be distributed within the county in which the donations are received. We noted that 17 (11%) organizations served communities outside of the County, but received 3,750 toys, valued at \$37,500.

Recommendations

Department of Children and Family Services management:

16. **Only distribute toys to organizations that submit applications and tax exempt rulings, and verify the propriety of information received before making toy distributions.**
17. **Refer toy requests from organizations that do not serve communities within the County to the respective jurisdiction.**

Toy Surplus

We visited CTFU's toy warehouse and noted that at least 7,000 toys, totaling \$70,000, remained from previous Spark of Love events and were not distributed. Even with this large toy surplus, we noted that DCFS regional offices purchased additional toys to give to children during the holidays instead of requesting toys from CTFU. We also noted that CTFU unnecessarily purchased additional toys, totaling \$5,000, when they already had sufficient toys in the warehouse.

CTFU should be utilizing all available opportunities for distributing toys to ensure they benefit underserved children. We noted that the Unit does not perform any outreach to find community organizations that could use the toys. We also noted that CTFU denied applications from 24 valid nonprofits that requested toys, including a County park and other recreational centers. Applications were denied because they were not submitted by the September deadline. While we agree that deadlines help identify organizations early on, it does not appear to be prudent to schedule the application deadline so early or to use it as a basis for denial (especially when there is a large toy surplus). In addition, the deadline applied to some organizations is not consistent with the fact (as previously described) that toys were distributed to organizations that never submitted an application.

Recommendations

Department of Children and Family Services management:

18. **Develop a plan for distributing the donated toy surplus and ensure the surplus is exhausted before purchasing additional toys.**

19. **Utilize all opportunities for distributing donated toys (e.g., community organization outreach) and remove any unreasonable barriers to toy distribution (e.g., denials based on arbitrary deadlines).**

Event Tickets

CTFU occasionally receives donated event tickets throughout the year, including tickets for sporting events and amusement parks. Tickets are supposed to be issued to DCFS regional offices for distribution to clients. We reviewed CTFU's oversight of tickets to six events, for which they received 4,500 tickets valued at \$140,000, and noted the following issues:

- **Missing Event Tickets:** CTFU could not account for 472 (10%) tickets, totaling \$12,000. There were no records documenting the transfer of these tickets from CTFU to DCFS regional offices (i.e., transmittal), and the tickets could not be located. For example, CTFU received 3,000 Raging Waters tickets, but only had records confirming that 2,913 tickets were issued. The remaining 87 tickets could not be located.
- **Tickets Issued to Outside Entities:** CTFU issued 590 (13%) tickets, totaling \$21,000, to outside entities (e.g., ministries). The tickets were donated for the benefit of children in DCFS' care, and should not have been issued to outside entities, especially given that some regional offices did not receive any tickets. We also noted that none of the outside entities were tax exempt (valid nonprofits).

Recommendation

20. **Department of Children and Family Services management ensure that donated tickets are properly accounted for, records are maintained for ticket issuances, and tickets are issued as the donor intended.**

Purchases and Payments

CTFU incurs expenses for services related to the fundraising activities and other special events they organize throughout the year (e.g., catering). With minimal oversight, CTFU identifies services needed, selects vendors, and receives and approves vendor invoices for payment.

We frequently encountered instances of questionable payments throughout our review; examples of which are as follows:

- **No Documentation of Services Provided:** CTFU authorized payments without documentation of services actually being provided. For example, they authorized a \$2,500 payment for children to attend a block party health and wellness fair, but could not provide any documentation identifying which children attended. In

addition, we observed several other instances where CTFU did not document the children receiving services.

- **Payments to Volunteers:** CTFU paid for services by volunteers. For example, CTFU inappropriately authorized four payments to a volunteer for various "consulting" services, totaling \$3,200. The volunteer had previously signed an agreement indicating that they would not be compensated.
- **Payments to DCFS Employees:** CTFU purchased food for fundraising events from two DCFS employees, totaling \$1,400. In the past, these employees were reimbursed for actual food expenses (receipts), but were now billing CTFU for food at higher prices and charging delivery fees. We also noted that CTFU inexplicably prepared donation receipts and thank you letters for the food the employees were paid for (tax benefits).
- **Inappropriate Cash Advances:** CTFU staff frequently request cash advances to pay for event expenses (e.g., food, decorations). Cash advances should not be used for these types of purchases. We reviewed 12 cash advances, totaling \$4,400, and noted that staff did not submit receipts for two (17%) of the advances, approved their own request for one (8%) advance, and spent unused cash on items not related to the approved event for eight (67%) advances.

In addition, we reviewed cash advances for 51 purchases of food for volunteers during the Spark of Love event. We noted that 29 (57%) purchases, totaling \$700, were made when no volunteers were present, and five (10%) purchases, totaling \$200, were made before or after the Toy Drive period. Many of the purchases were for a few people (not large groups).

- **Inappropriate Employee Reimbursements:** All 13 employee reimbursements we reviewed, totaling \$2,200, either appeared to be inappropriate or there were no records that identified the related event. For example, CTFU reimbursed staff \$300 for gifts for a client baby shower, but the items purchased did not appear to be consistent with the event (e.g., clothes for older children, underwear). In addition, CTFU reimbursed staff \$600 for an event at a restaurant (e.g., food, bartender), but there were no records of any such CTFU sponsored event. We also found that staff approved two of their own reimbursements.

We also noted that CTFU staff regularly circumvent County purchasing guidelines. For example, CTFU staff made purchases over DCFS' delegated authority. They also did not solicit three bids for purchases over \$1,500. DCFS' Procurement Section should process all purchases for CTFU to ensure County guidelines are followed and appropriate approvals are obtained.

Recommendations**Department of Children and Family Services management:**

- 21. Prohibit Children's Trust Fund Unit staff from the purchasing process (including cash advances, employee reimbursements, etc.) and require the Procurement Section to complete all purchases.**
- 22. Require vendors to submit invoices directly to Accounts Payable and ensure staff scrutinize invoices for inappropriate purchases.**

Internal Controls

County departments must maintain appropriate internal controls to safeguard resources (e.g., cash). We evaluated internal controls over CTFU operations and identified significant deficiencies in nearly all areas, including segregation of duties, collections, and purchasing. These deficiencies contributed to many of the issues we identified in this report.

Segregation of Duties

A key element of internal control is segregation of duties. Generally, responsibilities for custody of resources, authorization of transactions affecting resources, and recording of transactions should be segregated to different employees. This ensures that no one employee controls all aspects of a transaction, which would allow them to commit and conceal inappropriate activities. During our review, we noted that the same few CTFU employees had incompatible responsibilities; examples of which are as follows:

- **Fundraising:** A CTFU employee had custody of fundraising event ticket stock, issued tickets, received cash from ticket sales, and recorded ticket income.
- **Purchases:** A CTFU employee authorized, ordered, and received purchases.
- **Toy Drive:** A CTFU employee received and distributed toys, maintained toy inventory records, and approved toy request applications for the Spark of Love event.
- **Donated Event Tickets:** A CTFU employee received and issued donated event tickets (e.g., sporting events), had custody of tickets, and maintained ticket inventory records.

Recommendation

- 23. Department of Children and Family Services management immediately segregate conflicting duties, including the use of other sections within**

the Department to achieve internal control objectives, and monitor for compliance.

Collections

CTFU does not maintain appropriate internal controls over the collections process. We noted that CTFU staff do not prepare receipts or transmittals to document the cash and checks they have received. They also do not reconcile collections to the items being paid for (verifies that all cash and checks have been collected and no items are missing). For example, CTFU does not reconcile event tickets sold to the amount of cash and checks collected. Given these control issues and the other collection issues identified throughout our report, DCFS should prohibit CTFU from participating in the collection process and require that donations are either processed through DCFS' Deposit Unit or online payment portal.

Recommendations

Department of Children and Family Services management:

- 24. Require employees to issue pre-numbered receipts or transmittals to document the cash and checks they receive.**
- 25. Reconcile collections to items being paid for (e.g., ticket sales) to verify that all cash and checks have been collected and no items are missing.**
- 26. Prohibit the Children's Trust Fund Unit from participating in the collections process, and require that donations are either processed through the Deposit Unit or online payment portal.**

Management Oversight

CTFU purchases are not being appropriately reviewed and approved by managers. We noted that 46 (96%) of the 48 purchase requests we reviewed, totaling approximately \$50,000, were not approved by a manager. Lack of management oversight contributed to some of the significant purchasing issues we identified throughout our review.

Recommendation

- 27. Department of Children and Family Services management ensure purchase requests are reviewed and approved by an appropriate level manager.**

Inventory

CTFU receives in-kind donations throughout the year (e.g., amusement park tickets, toys, gift certificates). However, we noted that they only maintain inventory records for All for the Love of Kids donations. CTFU needs to maintain complete and accurate inventory records for all in-kind donations. In addition, staff independent of CTFU should conduct periodic physical inventories to verify the accuracy of the records.

We also noted that some of the in-kind donations were not adequately secured. For example, gift certificates were kept in an unsecured cabinet and Spark of Love toys were kept in a storage room where access was not limited to a few individuals.

Recommendations**Department of Children and Family Services management:**

- 28. Maintain complete and accurate inventory records for donated items, and have independent staff periodically conduct physical inventories to verify the accuracy of records.**
- 29. Ensure donated items are adequately secured and access is limited at all times.**



**County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

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April 13, 2017

To: John Naimo
Auditor-Controller

From: Brandon T. Nichols
Acting Director

RESPONSE TO THE AUDITOR-CONTROLLER'S DEPARTMENT OF CHILDREN AND FAMILY SERVICES – CHILDREN'S TRUST FUND UNIT REVIEW

Thank you for the opportunity to review the draft report of the Auditor-Controller's review of the Department of Children and Family Services' (DCFS) Children's Trust Fund (CTF) Unit.

We generally agree with the recommendations contained in the report, and have already implemented corrective action on a number of issues that were brought to our attention during the review process such as:

- Hired a new CTF Unit manager in June 2015 and transferred staff from that unit.
- Discontinued all "One Child at a Time" events.
- Discontinued inventory management for the 2016 "Spark of Love" Toy Drive.
- Implemented cash handling controls for the 2016 "All for the Love of Kids" event.
- Implemented clear separation of duties for request and approvals of purchases from the unit.
- Established recognized accreditation requirements for potential summer camp vendors.

Considering the significance of the findings, we are requesting additional time to further develop the appropriate corrective actions for each recommendation and will provide the Board a detailed response within 60 days, including a determination on the viability and continuance of the CTF Unit.

The Department fully supports the Auditor-Controller in its discovery of the findings and we are committed to continuing our work with you on various aspects of the report. My Department is committed to improving internal practices to fulfill its responsibility, to safeguard County resources, and to ensuring compliance with County Fiscal Policies. I thank you and your staff for their time, post-review assistance, and professional manner in which the review was conducted.

"To Enrich Lives Through Effective and Caring Service"

John Naimo
April 13, 2017
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If you have any questions or require additional information, please have your staff contact Onnie Williams III, Administrative Services Manager III, at (213) 351-5690.

Thank you.

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c: Cynthia McCoy Miller, Senior Deputy Director
Rogelio Tapia, Administrative Deputy III
Kym Renner, Deputy Director
Dominique Robinson, CTF Unit Manager