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A Report on

On-site Audits of Residential Child Care Providers

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On-site Audits of Residential Child Care Providers

Overall Conclusion

Three of five residential child care providers (24-hour providers) audited appropriately spent federal and state funds to pay **direct costs** incurred for providing 24-hour residential child care services. These payments are intended to ensure the delivery of goods and services—such as direct care, therapy, food, shelter, and clothing—that promote the mental and physical well-being of children placed in the providers' care. Providers deliver these services through contracts with the Department of Family and Protective Services (Department). The three providers were:

- Alliance Adolescent and Children's Services, Inc. (see Chapter 1).
- Covenant Kids, Inc. (see Chapter 2).
- Hope For Tomorrow (see Chapter 3).

These three providers also spent federal and state funds to pay for **administrative costs** that were reasonable and appropriate.

The fourth provider audited—the Panhandle Assessment Center Child Placing Agency—spent federal and state funds to pay for administrative costs that were reasonable and appropriate. However, auditors identified weaknesses in this provider's supporting documentation for direct costs (see Chapter 4).

Because of financial weaknesses at the fifth provider audited—the Willie C. McDuffie Residential Treatment Center—auditors were unable to verify that this provider's direct and administrative costs were reasonable and appropriate (see Chapter 5). This provider did not always maintain supporting documentation for its expenditures, and it did not always record financial transactions accurately in its accounting system.

Background Information

During fiscal year 2007, the Department of Family and Protective Services (Department) had 303 contracts with 216 providers to provide residential child care on a 24-hour basis.

The Department paid all providers approximately \$373,287,333 for providing services to the 32,877 children in foster care during fiscal year 2007. See Appendix 2 for descriptions of the types of residential child care providers.

Approximately 62 percent of the funding for these services comes from the federal government and approximately 38 percent comes from the State.

Texas Government Code, Section 2155.1442 (b), requires the Health and Human Services Commission to contract with the State Auditor's Office to perform on-site financial audits of selected residential child care providers that provide foster care services to the Department.

Source: The Department of Family and Protective Services.

Table 1 summarizes the significant issues identified at each provider audited. Auditors also identified less significant issues that were communicated separately in writing to each provider.

Table 1

Summary of Significant Issues Identified at Five Providers Audited					
Issues Identified at Providers	Providers				
	Alliance Adolescent and Children's Services, Inc. (Austin, Texas) See Chapter 1	Covenant Kids, Inc. (Arlington, Texas) See Chapter 2	Hope For Tomorrow (Early, Texas) See Chapter 3	Panhandle Assessment Center Child Placing Agency (Amarillo, Texas) See Chapter 4	Willie C. McDuffie Treatment Center (Houston, Texas) See Chapter 5
Provider did not always comply with licensing, training, or education requirements for staff, foster care parents, or subcontractors.	✓	✓	✓	✓	✓
Provider did not always comply with background check requirements on staff, foster care parents, or subcontractors.	✓	✓	✓	✓	✓
Provider did not always pay foster care parents according to the same number of days of service or service level as it was paid by the Department.	✓				Not applicable ^a
Provider did not always identify related party transactions on the cost report it submitted to the Health and Human Services Commission.					✓
Provider did not always maintain adequate documentation related to financial transactions.			✓	✓	✓
Provider had weaknesses in the security over its automated systems, application, and data.	✓	✓	✓	✓	✓
<p>Note: ✓ indicates the issue was identified at this provider.</p> <p>^a This provider is a residential treatment center; therefore, it provides residential care directly to children on site and does not contract with foster care parents.</p>					

Under their unit rate contracts with the Department, providers are paid an amount per child per day for delivering services. The Department does not control how providers spend the payments, so long as the providers (1) spend these funds legally and (2) account for their expenditures accurately in cost reports they submit to the Health and Human Services Commission for rate-setting purposes. Expenditures reported as unallowable costs are not included in the cost data used to set unit rates. During calendar year 2007, the Department paid the five providers audited approximately \$16.2 million to provide services to 2,178 children.

Summary of Providers' Responses

The providers were in general agreement with the recommendations that were addressed to them. Their responses are presented in Appendices 4 through 8 beginning on page 34.

Summary of Information Technology Review

All providers audited should correct weaknesses in their information system environments to improve the security over automated systems, applications, and data. The weaknesses identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the providers' ability to ensure the integrity of their data. To minimize the risks associated with public disclosure, auditors communicated details regarding these issues in writing directly to the providers.

Summary of Objective, Scope, and Methodology

The audit objective was to verify that providers are spending federal and state funds for contractually required services that promote the well-being of the foster care children placed in their care.

The audit scope included assessing the appropriateness, reasonableness, and necessity of expenditures that providers made between September 2006 and December 2007. In addition, the scope included verifying whether providers ensured that their professionally licensed staff and direct care staff met the Department's requirements for qualifications and training.

The audit methodology included judgmentally selecting five providers based on (1) risk factors the Department uses in its annual statewide monitoring plan and (2) the providers' contract status as reported by the Department. Additionally, the audit methodology included collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating the results of tests; and interviewing management and staff at the Department and providers.

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Detailed Results

Chapter 1

Audit of Alliance Adolescent and Children’s Services, Inc.

Alliance Adolescent and Children’s Services, Inc. Background Information Fiscal Year 2007	
Location	Austin
Contract services audited	Child Placing Agency
Number of children served	740
Average length of a child’s stay	187
Total revenue requested from the Department	\$2,478,774
Total revenue	\$2,479,545
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2006	\$766,796 (for locations in Austin and Houston.)
Approximate number of staff	12
Staff turnover rate (for administrative and program staff)	67 percent

Sources: The Department of Family and Protective Services, the provider, and analyses conducted by the State Auditor’s Office.

Alliance Adolescent and Children’s Services (provider) **appropriately spent** federal and state funds it received from the Department of Family and Protective Services (Department) to pay direct and administrative costs incurred for providing 24-hour residential child care services.¹ These costs included (1) payments to foster care families with whom the provider placed children and (2) payment of expenses the provider incurred for operating a child placing agency. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the provider’s care. However, auditors identified the following:

- **Non-compliance with background check requirements for foster care parents and staff.** (See Chapter 1-A.) The provider did not consistently conduct and maintain the required background checks required by both the Department’s licensing rules and the provider’s contract.
- **Lack of documentation of foster care reimbursement payments.** (See Chapter 1-B.) The provider was unable to provide adequate supporting documentation for some maintenance payments to foster care parents.
- **Non-compliance with foster care parent and staff training.** (See Chapter 1-C.) The provider did not have documentation indicating that foster care parents and staff received required training.
- **Non-compliance with the verification of professional licenses and experience.** (See Chapter 1-D.) The provider did not consistently verify professional licenses and experience for prospective employees to ensure that they met minimum requirements.
- **Weaknesses in access to and the security environment surrounding automated systems, applications, and data.** (See Chapter 1-E.) The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The

¹ Alliance Adolescent and Children’s Services, Inc. has multiple locations. This audit focused on the provider’s Austin contract.

weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Chapter 1-A

The Provider Should Consistently Conduct and Maintain Background Checks for Foster Care Parents and Staff In a Timely Manner

The provider did not consistently conduct required background checks for foster care parents and staff within 2 days of hiring or every 24 months after the initial check as required by the Department. Specifically:

- For 9 of 25 (36 percent) foster care parents tested, the provider did not complete a subsequent background check within 24 months of initially placing children. It conducted these checks between 3 days and 805 days late.
- For 11 of 36 (31 percent) staff tested, the provider did not conduct a background check within 2 business days of employment. One of these employees did not have a background check on file at the time of the audit.
- For 1 of 6 (17 percent) staff tested, the provider did not conduct a subsequent background check within 24 months of hire. It conducted this check approximately 36 days late.

Auditors performed criminal background checks for the individuals discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

Recommendation

The provider should ensure that it conducts and routinely maintains background checks on its foster care parents and staff in accordance with the Department's requirements.

Chapter 1-B

The Provider Should Maintain Supporting Documentation to Demonstrate That It Pays Foster Care Parents for the Correct Days of Services and Levels of Care

The provider's contract requires it to reimburse foster care parents at a minimum daily rate for services provided to children according to the service level of care that the Department pays the provider.

Ten foster care maintenance payments of the 190 (5 percent) selected for testing could not be verified. The provider was unable to provide adequate supporting documentation to show that it had properly paid the foster families for the same service levels for which it was paid by the Department. These payments totaled \$3,601.

Recommendation

The provider should maintain supporting documentation to show that it properly pays the foster families for the same service levels for which it was paid by the Department.

Chapter 1-C

The Provider Should Ensure Foster Care Parents and Its Staff Meet Training Requirements

The provider does not actively maintain foster care parent training files that include documentation on pre-service training. Specifically, 6 of 25 (24 percent) files for foster care parents tested lacked documentation of when pre-service training was completed.

The provider also does not consistently ensure that all staff received required CPR and first aid training. Specifically, the provider did not have documentation indicating that 9 of 36 (25 percent) employees tested had received CPR and first aid training.

Recommendation

The provider should maintain and periodically review documentation to verify that foster care parents and staff have received pre-service training and employee CPR and first aid training as required.

Chapter 1-D

The Provider Should Consistently Verify Professional Licenses and Experience for Prospective Employees

The provider did not consistently verify professional licenses and experience for prospective employees to ensure that they met minimum requirements. Specifically:

- For 1 of 8 (13 percent) employees tested, the provider did not verify that the employee had a professional license prior to employment.
- For 6 of 36 (17 percent) employees tested, the provider did not verify the employees' prior professional experience prior to employment.

Recommendation

The provider should ensure that it verifies and documents job applicants' professional licenses and work experience prior to employment.

Chapter 1-E

The Provider Should Strengthen Access to and Security Surrounding Its Automated Systems, Applications, and Data

The provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. Auditors identified opportunities for improvement in the following areas:

- Audit trails.
- Information system policies and procedures.
- Logical access security.

To minimize the risks associated with public disclosure, auditors communicated details regarding those issues in writing directly to the provider.

Recommendation

The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

Audit of Covenant Kids, Inc.

Covenant Kids, Inc. Background Information Fiscal Year 2007	
Location	Arlington
Contract services audited	Child Placing Agency
Number of children served	499
Average length of a child's stay	271 days
Total revenue requested from the Department	\$4,097,067
Total revenue	\$4,104,962
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2007	\$8,073
Approximate number of staff	34
Staff turnover rate (for administrative and program staff)	39 percent

Sources: The Department of Family and Protective Services, the provider, and analyses conducted by the State Auditor's Office.

Covenant Kids (provider) **appropriately spent** federal and state funds it received from the Department of Family and Protective Services (Department) to pay direct and administrative costs incurred for providing 24-hour residential child care services. These costs included (1) payments to foster care families with whom the provider placed children and (2) payment of expenses the provider incurred for operating a child placing agency. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the care of the provider. The provider also maintained adequate supporting documentation for the administrative expenditures tested. However, auditors identified the following:

- **Non-compliance with background check requirements for foster care parents and staff.** (See Chapter 2-A.) The provider did not consistently conduct background checks in a timely manner as required by both the Department's licensing rules and the provider's contract.
- **Non-compliance with staff training requirements.** (See Chapter 2-B.) The provider did not consistently provide training to its staff as required by the Department's licensing rules prior to providing either care or services.
- **Weaknesses in access to and the security environment surrounding automated systems, applications, and data.** (See Chapter 2-C). The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Chapter 2-A

The Provider Should Consistently Conduct and Maintain Background Checks for Foster Care Parents and Staff in a Timely Manner

The provider did not consistently conduct background checks in a timely manner for foster care parents and staff. Specifically:

- For 2 of 25 (8 percent) foster families tested, the provider's records indicated that criminal background checks were not conducted every 24 months as required by the Department. One background check was two days late and the other two months late. However, as of the end of this audit, the provider had current criminal background checks for all foster care parents.
- For 5 of 30 (17 percent) staff tested, the provider's records did not contain adequate documentation that the provider conducted initial criminal background checks in a timely manner. These 5 background checks were conducted between 4 and 15 days late.
- For 5 of 20 (25 percent) staff tested, the provider's records indicated that criminal background checks were not conducted every 24 months as required by the Department. These 5 background checks were up to 40 days late. However, as of the end of this audit, the provider had current criminal background checks for all staff.

Auditors performed criminal background checks for the individuals discussed above and determined that there was one possible reported offense that would violate the Department's minimum standards. Auditors forwarded this case to the Department for further investigation.

Recommendation

The provider should ensure that it conducts and routinely maintains background checks on its foster care parents and staff in accordance with the Department's requirements.

Chapter 2-B

The Provider Should Ensure That Staff Meet Employee Training Requirements

The provider does not consistently ensure that all staff receive required pre-service training. Five of 30 (17 percent) employee files tested lacked documentation that a training requirement had been met. Specifically:

- Three of 30 (10 percent) employee files tested did not contain detailed training orientation sheets.
- Two of 30 (7 percent) employee files tested did not contain evidence of behavior intervention training.

Recommendation

The provider should maintain and periodically review documentation to verify that staff have received employee orientation and behavior intervention training.

Chapter 2-C

The Provider Should Strengthen Access to and Security Surrounding Its Automated Systems, Applications, and Data

The provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. Auditors identified opportunities for improvement in the following areas:

- System security.
- Backup and recovery.
- Information systems policies and procedures.

To minimize the risks associated with public disclosure, auditors communicated details regarding those issues in writing directly to the provider.

Recommendation

The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

Audit of Hope For Tomorrow

Hope For Tomorrow Background Information Fiscal Year 2007	
Location	Early
Contract services audited	Child Placing Agency
Number of children served	843
Average length of a child's stay	379 days
Total revenue requested from the Department	\$8,268,491
Total revenue	\$8,271,659
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2006	\$26,889
Approximate number of staff	40
Staff turnover rate (for administrative and program staff)	57 percent

Sources: The Department of Family and Protective Services, the provider, and analyses conducted by the State Auditor's Office.

Hope For Tomorrow (provider) **appropriately spent** federal and state funds it received from the Department of Family and Protective Services (Department) to pay direct and administrative costs incurred for providing 24-hour residential child care services. These costs included (1) payments to foster care families with whom the provider placed children and (2) payment of expenses the provider incurred for operating a child placing agency. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the care of the provider. The provider ensures that training is provided to staff and subcontractors, and it verifies that staff and subcontractors have the required education. However, auditors identified the following:

- **Non-compliance with background check requirements for foster care parents, staff, and subcontractors.** (See Chapter 3-A.) The provider did not consistently conduct and maintain background checks as required by both the Department's licensing rules and the provider's contract.
- **Non-compliance with foster care parent training requirements.** (Chapter 3-B.) The provider did not consistently conduct pre-service training for foster care parents. However, the provider did comply with annual foster care parent training requirements.
- **Non-compliance with personnel file requirements for staff and subcontractors.** (See Chapter 3-C.) The provider did not document its verification of experience for prospective employees and did not ensure subcontractors had current professional licenses.
- **Weakness in financial processes.** (See Chapter 3-D.) The provider did not ensure that food expenditures were coded to the correct general ledger account.
- **Weaknesses in access to and the security environment surrounding automated systems, applications, and data.** (See Chapter 3-E.) The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Chapter 3-A

The Provider Should Consistently Conduct Background Checks for Foster Care Parents, Staff, and Subcontractors in a Timely Manner

The provider did not consistently conduct and maintain required background checks for staff, subcontractors, and foster care parents in a timely manner. The provider also did not conduct and maintain background checks every 24 months as required by the Department. Specifically:

- For 2 of 25 (8 percent) foster care parents tested, the provider did not conduct the initial background checks prior to or within two days of commencement of services. One background check was not performed, and the other was conducted 55 days late. In addition, the Department requested a risk evaluation on a foster care parent with an initial background check, but the provider did not submit the risk evaluation.
- For 6 of 13 (46 percent) foster care parents tested, at least 1 subsequent check was not done within the 24-month period between the provider's background checks. The amount of time that criminal background checks were conducted late ranged from 10 to 629 days.
- For 6 of 36 (17 percent) staff tested, the provider did not conduct the initial background checks prior to or within two days of employment. The amount of time that criminal background checks were conducted late ranged from 3 to 16 days.
- For 9 of 21 (43 percent) staff tested, at least 1 subsequent check was not done within the 24-month period between the provider's background checks. The amount of time that criminal background checks were conducted late ranged from 3 to 258 days.
- For 27 of 35 (77 percent) subcontractors tested, the provider did not conduct the initial background checks prior to or within two days of commencement of the subcontract. The amount of time that criminal background checks were conducted late ranged from 3 to 979 days.
- For 4 of 16 (25 percent) subcontractors tested, the provider did not conduct criminal background checks every 24 months as required. The amount of time that criminal background checks were conducted late ranged from 33 to 510 days.

Auditors performed criminal background checks for the individuals discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

Recommendation

The provider should ensure that it conducts and routinely maintains background checks on its foster care parents, staff, and subcontractors in accordance with the Department's requirements.

Chapter 3-B

The Provider Should Ensure It Consistently Conducts Pre-service Training for Foster Care Parents

The provider did not consistently conduct pre-service training for foster care parents as required by the Texas Administrative Code. Specifically, for 14 of 25 (56 percent) foster care parents tested, the provider did not conduct pre-service training or did not ensure that foster care parents had the required eight hours of training.

Recommendation

The provider should provide foster care parents with pre-service training as required by the Texas Administrative Code.

Chapter 3-C

The Provider Should Ensure It Maintains Required Documentation in the Personnel Files for Staff and Subcontractors

The provider did not document its verification of experience and references, and it did not maintain current professional licenses, as required, for staff and subcontractors. This information is required to be kept in the staff or subcontractor personnel file. Specifically:

- For 39 of 40 (98 percent) staff tested, the provider did not document the verification of experience and references, as required, in the personnel files.
- For 4 of 33 (12 percent) subcontractors tested, the provider did not ensure these individuals' professional licenses were current and maintained in their personnel files.

Recommendations

The provider should:

- Document in the personnel files its verification of staff experience and references.
- Ensure subcontractors licenses are current and maintain these licenses in their personnel files.

Chapter 3-D

The Provider Should Ensure It Properly Records Food Expenditures in Its Accounting System

The provider's food expenditures were reasonable and necessary; however, it did not always record these expenditures properly in its accounting system. Auditors tested 65 food expenditures, totaling \$5,267, in the provider's general ledger. Nine of these 65 (14 percent), or \$657 of food expenditures tested, were coded to the general ledger food account even though they were not actually expenditures for food. As a result, the provider overreported food expenditures and underreported the other expense line items on its cost report; the net amount of allowable costs reported was not affected.

Recommendation

The provider should ensure that it records all food expenditures properly in its accounting system.

Chapter 3-E

The Provider Should Strengthen Access to and Security Surrounding Its Automated Systems, Applications, and Data

The provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. Auditors identified opportunities for improvement in the following areas:

- Information system policies and procedures.

- System security.
- System backup and recovery.

To minimize the risks associated with public disclosure, auditors communicated details regarding those issues in writing directly to the provider.

Recommendation

The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

Audit of the Panhandle Assessment Center Child Placing Agency

Panhandle Assessment Center Background Information Fiscal Year 2007	
Location	Amarillo
Contract services audited	Child Placing Agency and Emergency Shelter
Number of children served	58
Average length of a child's stay	718 days
Total revenue requested from the Department	\$2,530,988
Total revenue	\$2,538,958
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2006	\$435,182
Approximate number of staff	49
Staff turnover rate (for administrative and program staff)	46 percent

Sources: The Department of Family and Protective Services, the provider, and analyses conducted by the State Auditor's Office.

The Panhandle Assessment Center Child Placing Agency (provider) spent federal and state funds it received from the Department of Family and Protective Services (Department) to pay for administrative costs that were **reasonable and appropriate**. However, auditors identified weaknesses in this provider's supporting documentation for direct costs. The provider's payments included (1) payment to foster care families with whom it placed children and (2) payment of expenses incurred for operating as a child placing agency and an emergency shelter. These expenditures were necessary to ensure the mental and physical well-being of the children placed in the care of the provider. The provider ensures that staff and subcontractors maintain professional licenses, and it ensures that training requirements are met. However, auditors identified the following:

- **Non-compliance with background check requirements for foster care parents, staff, and subcontractors.** (See Chapter 4-A.) The provider did not consistently conduct and maintain background checks in the files as required by both the Department's licensing rules and the provider's contract.
- **Significant weaknesses in financial processes** (See Chapter 4-B.) The provider should improve its general ledger entry process and documentation processes for travel, food, shelter, clothing, and credit card expenditures. The provider did not always (1) maintain supporting documentation of its expenditures, (2) accurately record financial transactions in the proper account, and (3) ensure segregation of duties within its financial processes.
- **Non-compliance with the verification of staff education and experience requirements** (See Chapter 4-C.) The provider did not consistently verify education and experience for prospective employees to ensure that the minimum requirements are met.
- **Weaknesses in access to and the security environment surrounding automated systems, applications, and data.** (See Chapter 4-D.) The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Chapter 4-A

The Provider Should Consistently Conduct and Maintain Background Checks for Foster Care Parents, Staff, and Subcontractors In a Timely Manner

The provider did not consistently conduct background checks every 24 months after the initial check and/or within 2 business days of hiring employees. The provider also did not always properly maintain background checks in the files for foster care parents, staff, and subcontracted therapists.

- For 4 of 25 (16 percent) foster families tested, the provider did not complete the subsequent background check (required 24 months after the initial check). These checks were conducted from 8 days to 60 days late.
- For 4 of 30 (13 percent) staff tested, the provider did not complete the initial background check before the employee had unsupervised contact with children. These checks were not completed until 7 to 92 days after the date of hire.
- For 2 of 11 (18 percent) staff tested, the provider did not complete the subsequent background check (required 24 months after the initial check). The two checks were conducted 166 days late and 567 days late.
- For 3 of 14 (21 percent) subcontracted therapists tested, the provider did not conduct initial background checks in accordance with Department and Texas Administrative Code requirements.

Auditors performed criminal background checks for the individuals discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

Recommendation

The provider should ensure that it conducts and routinely maintains background checks on its staff, subcontracted therapists, and foster care parents in accordance with the Department's requirements.

Chapter 4-B

The Provider Should Strengthen Financial Processes and Improve Its Approval and Documentation Processes for Food, Credit Card, Clothing, Shelter, and Travel Expenditures

The provider did not consistently maintain supporting documentation and evidence of approval of expenditures to ensure compliance with the Texas Administrative Code and requirements for cost reports. The provider should ensure that its direct care staff and executive management provide adequate documentation for (1) the purchases they make and (2) the use of the provider's credit cards. The provider lacked receipts for several expenditures for food, credit cards, clothing, and shelter. The provider also does not ensure that its tax-exempt status is reflected in its purchases.

Auditors tested 261 expenditures (recorded as 120 transactions) for food (120 expenditures), credit cards (64 expenditures), clothing (48 expenditures), and shelter (29 expenditures) made in fiscal year 2007. The provider lacked adequate documentation to support:

- 20 (17 percent) food expenditures totaling \$1,229.
- 11 (17 percent) credit card expenditures totaling \$1,218.
- 7 (15 percent) clothing expenditures totaling \$1,303.
- 6 (21 percent) shelter expenditures totaling \$441.

Auditors also noted that:

- 10 (21 percent) clothing expenditures were entered into the fiscal year 2007 general ledger when they were actually from previous fiscal years.
- 12 (25 percent) clothing expenditures were coded to the improper account (food).

Auditors reviewed 16 travel expenditures for fiscal year 2007. Three (19 percent) of those expenditures were not approved by an authorized person. There was no approval signature on the "per diem voucher."

The provider should segregate certain financial duties.

A single employee at the provider is responsible for (1) reviewing, entering, and approving transactions in the financial system and (2) reconciling the provider's accounts payable and accounts receivable. This weakness in segregation of duties increases the risk that inaccurate and inappropriate financial transactions could be processed without detection.

Recommendations

The provider should:

- Retain all supporting documentation for all transactions, and ensure that it maintains documented evidence of approval by an authorized person.
- Ensure that all records pertinent to services rendered under their contracts with the Department are accurate and sufficiently detailed to support the financial information contained in their cost reports.
- Implement more oversight of bookkeeping functions to ensure that accounting practices follow generally accepted accounting principles, as required by the Texas Administrative Code.
- Develop and implement accounting policies and procedures that include maintaining full documentation to support expenditures and complete and accurate financial records.

Chapter 4-C

The Provider Should Consistently Verify the Education and Experience of Prospective Employees

The provider did not consistently verify education and experience for prospective employees to ensure that they met minimum requirements. Specifically:

- For 17 of 30 (57 percent) employee files tested, the provider did not verify the individuals' education.
- For 4 of 30 (13 percent) employee files tested, the provider did not verify the individuals' experience.

Recommendation

The provider should document its verification of prospective employee's education and experience.

Chapter 4-D

The Provider Should Make Improvements to Address Weaknesses in Access to and the Security Environment Surrounding Its Automated Systems, Applications, and Data

The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data which could affect the provider's ability to ensure the integrity of its data. Auditors identified opportunities for improvement in the following areas:

- Physical security.
- Output controls.
- External access security.
- Information system policies and procedures.
- Segregations of duties.
- System back up and recovery.
- Access control.

To minimize the risks associated with public disclosure, auditors communicated details regarding those issues in writing directly to the provider.

Recommendation

The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

Audit of Willie C. McDuffie Treatment Center

Because of financial weaknesses at the Willie C. McDuffie Treatment Center (provider), auditors were unable to verify that this provider used the payments it received from the Department of Family and Protective Services (Department) to pay costs it incurred for providing 24-hour residential child care services.

Willie C. McDuffie Treatment Center Background Information Fiscal Year 2007	
Location	Houston
Contract services audited	Residential Treatment Center
Number of children served	38
Average length of a child's stay	304 days
Total revenue requested from the Department	\$827,973
Total revenue	\$1,076,796
Federal tax filing status	Non-profit
Ending cash balance on December 31, 2006	\$(23,360)
Approximate number of staff	32
Staff turnover rate (for administrative and program staff)	20 percent

Sources: The Department of Family and Protective Services, the provider, and analyses conducted by the State Auditor's Office.

According to the Department, it was served with an Internal Revenue Service (IRS) tax levy for this provider. As a result, the Department redirected this provider's approximately \$33,000 payment for April 2008 services to the IRS. The amount of the IRS tax levy was \$128,374. The Department reported that this tax levy had been resolved as of the end of the State Auditor's Office's audit.

Auditors identified the following:

- **Weaknesses in financial processes.** (See Chapter 5-A.) The provider did not always maintain supporting documentation of its expenditures and accurately record financial transactions in its accounting system.
- **Non-compliance with cost report requirements.** (See Chapter 5-B.) The provider did not report related party transactions in its 2007 cost report.
- **Non-compliance with background check requirements.** (See Chapter 5-C.) The provider did not consistently ensure that its staff and subcontractors received background checks as required by both the Department's licensing rules and the provider's contract.
- **Non-compliance with staff training requirements.** (See Chapter 5-D.) The provider did not consistently ensure that its staff received the training required by the Department's licensing rules prior to providing either care or services.
- **Weaknesses in verifying minimum requirements for staff and subcontractors.** (See Chapter 5-E.) The provider did not consistently verify education, work experience, and licenses for prospective employees and subcontractors.

- **Inconsistencies with provider records.** (See Chapter 5-F.) The provider's records did not consistently agree with those of the Department.
- **Weaknesses in access to and the security environment surrounding automated systems, applications, and data.** (See Chapter 5-G). The provider should make improvements to address weaknesses in the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data.

Chapter 5-A

The Provider Should Strengthen Its Financial Processes

The provider does not have financial processes that ensure the costs it pays are appropriate, reasonable, and necessary. It is important that providers have sound financial processes so that the cost reports they submit to the Health and Human Services Commission (Commission) are accurate. The Commission uses the financial information reported on the cost reports to determine future rates the Department will pay to providers for the delivery of care to children in foster care. Auditors requested the provider's audited financial statements for fiscal years 2006 and 2007, but the provider had not received them from its independent auditor as of the end of the State Auditor's Office's audit.

The provider does not have formal financial policies and procedures.

The provider does not have formal written policies and procedures for its accounting, procurement, and payment processes. In addition, the provider does not have a process in place to develop an annual fiscal budget, as required by Title 40, Texas Administrative Code, Section 748.103. However, the provider does have a travel and reimbursement policy.

The provider did not consistently maintain adequate supporting documentation for its expenditures.

Auditors tested samples of expenditures for food, clothing, and travel. The provider lacked adequate supporting documentation for several of those expenditures as required by Title 40, Texas Administrative Code, Section 748.103.

Food expenditures:

Auditors tested 38 food expenditures totaling \$32,967. The provider lacked supporting documentation for \$1,644 in food expenditures. The provider coded two expenditures totaling \$9,000 to food expenditures in the general ledger when they should have been coded to notes payable. In addition, 12 of

Willie C. McDuffie Treatment Center

38 (32 percent) expenditures tested were not coded to the appropriate account on the general ledger because these expenditures were not entirely for food.

Clothing expenditures:

Fourteen of 16 (88 percent) expenditures totaling \$1,605 were not coded to the appropriate account in the general ledger.

Travel expenditures:

Auditors tested the entire population of three travel transactions totaling \$545. One transaction for \$125 did not have supporting documentation and two transactions totaling \$420 were not coded to the appropriate account. Of the \$420, \$301 was a check for petty cash; the provider stated this was for travel, but due to a lack of receipts, auditors were not able to verify this.

The provider did not properly record receipts in its accounting systems.

The provider did not have financial processes that ensure the costs it pays for recreation and transportation (fuel) are reported accurately in its accounting system. Auditors tested all the reported amounts for recreation (\$13,207) and fuel expenditures (\$13,401) on the provider's 2007 cost report and identified the following:

- The provider overreported its expenditures for recreation in the general ledger and in the cost report by \$5,403. This occurred because the provider miscoded recreation expenditures in the general ledger.
- The provider underreported its expenditures for fuel in the general ledger and in the cost report by \$3,011. This occurred because the provider miscoded fuel expenditures in the general ledger.

The provider should ensure that its financial operations remain sound.

The provider is currently incurring an increasing amount of questionable costs due to late fees and shortages of funds in its bank accounts. The provider's general ledger contains information showing \$2,704 in non-sufficient funds (NSF) and bank overdraft charges for the provider's payroll account and operating account from September 1, 2006, through December 31, 2006. The general ledger also contains information showing an additional \$8,291 in NSF and bank overdraft charges in 2007.

The provider's general ledger contains information showing \$10,566 in total interest charges. This amount includes \$350 noted in the general ledger as NSF and bank overdraft charges that the provider incorrectly coded as interest charges. The provider reported the \$10,566 in its 2007 cost report as allowable costs. It is questionable whether these charges are necessary and reasonable. The provider's general ledger indicated that the provider incurred \$12,748 in penalty charges, such as NSF and bank overdraft charges and other

fees, during 2007; however, the provider deemed those penalty charges unallowable and did not include them in its 2007 cost report.

Recommendations

The provider should:

- Ensure that it obtains audit reports from its independent auditors.
- Develop and implement written policies and procedures for financial processes including accounting, procurement, and payment.
- Develop and implement an annual budgeting process.
- Maintain complete financial records for services rendered under its contract with the Department in order to support financial information in its accounting systems.
- Maintain sufficient operating funds to ensure that its financial operation is sound and to provide services for the children in its care.
- Follow the Department's cost report instructions regarding the reporting of allowable interest charges.

Chapter 5-B

The Provider Should Ensure That It Reports Related Party Transactions on Its Cost Report

The provider did not report all of its related party transactions on its 2007 cost report. As of December 31, 2007, the provider owed its executive director and other businesses owned by its executive director a net amount of \$123,229. Specifically, the provider did not report the following related party loans on its 2007 cost report:

- The provider made \$104,988 in loan payments to its executive director, and it received new loans from the executive director in the amount of \$126,710.
- The provider made \$36,500 in loan payments to two businesses owned by its executive director. The provider also received new loans totaling \$48,000 from these businesses.
- The provider had \$10,020 in outstanding loans receivable from three businesses owned by its executive director. These businesses made no payments to the provider during 2007.

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The provider also did not report the following related party lease and employee compensation transactions on its 2007 cost report:

- The provider had a 2007 lease agreement with its executive director for one of the two residential treatment facilities in the amount of \$11,964. According to the cost report instructions, allowable related party lease costs are the lower of the provider's payments or the cost to the related party. Therefore, auditors considered this \$11,964 to be questionable costs because the provider did not list this agreement under the related party transactions section of its cost report.
- The provider paid \$26,169 in salary to the executive director's cousin.

The contract between the Department and providers requires that providers comply with state requirements concerning related party transactions. State requirements specify that providers must disclose related party transactions on their cost reports.

Recommendation

The provider should disclose all related party transactions in the appropriate sections of its cost report as required.

Chapter 5-C

The Provider Should Conduct and Maintain Background Checks for Staff and Subcontractors

The provider did not consistently conduct required background checks for staff and subcontractors prior to employment and every 24 months thereafter as required by the Texas Administrative Code. Specifically:

- For 6 of 27 (22 percent) staff tested, the provider did not perform a background check prior to or within two days of employment as required. It ran initial background checks for these 6 employees from 9 to 744 days late.
- For 26 of 45 (58 percent) subsequent staff background checks tested, the provider did not perform the background checks within the required 24-month timeframe. It ran subsequent background checks for these 26 employees from 11 to 614 days late.
- For the 32 staff who were still employed with the provider as of December 31, 2007, 26 (81 percent) had current background checks as of that time.

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- For 2 of 3 (67 percent) subcontractors tested, the provider could not provide a hire date; as a result, auditors could not determine whether the provider performed an initial background check on the subcontractors prior to the commencement of the subcontract as required.
- For 1 of 3 (33 percent) subcontractors tested, there was no evidence that the provider had ever conducted a background check on the subcontractor.
- For 2 of 2 (100 percent) subsequent subcontractor background checks tested, the provider did not perform the background checks within the required 24-month timeframe. It ran subsequent background checks for these 2 subcontractors from 26 and 62 days late.
- For the 3 subcontractors still under contract with the provider as of December 31, 2007, 1 of the 3 (33 percent) did not have a current background check at that time.

Auditors performed criminal background checks for the individuals discussed above and determined that there were no reported offenses that would violate the Department's minimum standards.

Recommendation

The provider should ensure that it conducts and routinely maintains background checks on its staff and subcontractors in accordance with the Department's requirements.

Chapter 5-D

The Provider Should Ensure Its Staff Meets Training Requirements

The provider does not consistently ensure that all staff receive training as required by the Department. Specifically:

- For 9 of 28 (32 percent) staff tested, the provider's records did not contain documentation verifying that the staff members completed supervised child care training.
- For 4 of 30 (13 percent) staff tested, the provider's records did not contain documentation verifying that the staff members completed CPR/first aid training.

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- For 5 of 28 (18 percent) staff tested, the provider's records did not contain documentation verifying that the staff members completed annual behavior intervention training.
- For 8 of 32 (25 percent) staff tested, the provider's records did not contain documentation verifying that staff members completed psychotropic medication training.
- For 12 of 19 (63 percent) staff tested, the provider's records did not contain documentation verifying that the staff members completed 50 hours of annual training.

Recommendation

The provider should maintain and periodically review documentation to verify that staff have received required training.

Chapter 5-E

The Provider Should Ensure It Maintains Required Documentation on Its Staff and Subcontractors

The provider lacked adequate documentation for some of its staff and subcontractors. In addition, the provider did not consistently document that it verified qualifications for its staff and subcontractors. Specifically:

- For 11 of 40 (28 percent) staff tested, the provider's records did not contain documentation showing that the provider verified staff members' education prior to employment.
- For 9 of 40 (23 percent) staff tested, the provider's records did not contain documentation that the provider verified staff members' experience prior to employment.
- For 1 of 4 (25 percent) staff members' professional licenses tested, the provider's records did not contain documentation of a current license. This staff member is a child care administrator and, therefore, is required to have a current Texas child care administrator license.
- For 2 of 3 (67 percent) subcontractors tested, the provider's records did not contain documentation of a current license. The provider's file for one subcontractor contained a copy of an expired license; the provider's file for the other subcontractor did not contain any documentation that this individual had ever been licensed in Texas.

Recommendation

The provider should maintain and periodically review documentation to verify that staff and subcontractors have met the minimum education and experience requirements and have current professional licenses.

Chapter 5-F

The Provider Should Ensure It Maintains Accurate Records of Children's Levels of Care

The provider's records for children's levels of care did not consistently match those of the Department. Specifically, for 10 of 98 (10 percent) payments tested, the provider's records for levels of care did not match those of the Department. For 2 of those 10 payments, the provider received payments that exceeded the amount authorized for the level of care it had in its records. For the remaining 8 payments, the provider received payments that were less than the amount authorized for the level of care it had in its records.

In addition, the provider was not able to provide supporting documentation for 4 of the 98 (4 percent) payments tested. Therefore, auditors were unable to determine the accuracy of these four payments.

Recommendation

The provider should reconcile its payment records for levels of care to those of the Department.

Chapter 5-G

The Provider Should Strengthen Access to and Security Surrounding Its Automated Systems, Applications, and Data

The provider should correct weaknesses in its information system environment to improve the security over its automated systems, applications, and data. The weaknesses auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the provider's ability to ensure the integrity of its data. Auditors identified opportunities for improvement in the following areas:

- Information System Policies and Procedures.

Willie C. McDuffie Treatment Center

- External Access Security.
- Logical Access Security.
- System Backup and Recovery.

To minimize the risks associated with public disclosure, auditors communicated details regarding those issues in writing directly to the provider.

Recommendation

The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications, and data.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to verify that providers are spending federal and state funds for contractually required services that promote the well-being of the foster care children placed in their care.

Scope

The audit scope included assessing the appropriateness, reasonableness, and necessity of expenditures that providers made between September 2006 and December 2007. In addition, the scope included verifying whether providers ensured that professionally licensed staff and direct care staff met the Department's requirements for qualifications and training.

Methodology

The audit methodology included judgmentally selecting five providers based on (1) risk factors the Department uses in its annual statewide monitoring plan and (2) the providers' contract status as reported by the Department. Additionally, the audit methodology included collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating the results of tests; and interviewing management and staff at the Department and providers.

Information collected and reviewed included the following:

- Information from interviews with the Department's foster care program management and staff.
- Contracts between the Department and providers.
- Providers' costs reports.
- Providers' financial records.
- Providers' independent audit reports.
- Providers' personnel files for direct care staff, professionally licensed personnel, and subcontract therapists.
- Providers' payment records for foster care parents.
- Department program monitoring reports.

- Providers' policies and procedures.
- Providers' subcontracts.

Procedures and tests conducted included the following:

- Review of criminal background checks performed on direct care and administrative staff and subcontractors.
- Test of internal controls.
- Test of food, shelter, and clothing costs related to the services provided to children.
- Test of related party costs and contracts.
- Test of payroll records.
- Test of personnel files.
- Test of payments made to foster care parents.

Criteria used included the following:

- U.S. Office of Management and Budget circulars.
- Texas statutes and the Texas Administrative Code.
- Contracts between the Department and providers.
- The Department's *Contract, Licensing and Child Placing Agency Minimum Standards Handbooks*.
- The Health and Human Services Commission's *Specific Instructions for the Completion of the 2007 Texas 24-Hour Residential Child Care Cost Report*.

Project Information

Audit fieldwork was conducted from April 2008 through July 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Cesar Saldivar, CGAP (Project Manager)

- Juan Sanchez, MPA, CIA, CGAP (Assistant Project Manager)
- Darrell Edgar, CFE
- Thomas Mahoney
- John Rios
- Lisa Thompson
- Parsons Townsend
- James A. White, CFE
- Shelby Cherian, MBA (Information Systems Audit Team)
- Stephen Randall, MBA (Information Systems Audit Team)
- Rachelle Wood (Information Systems Audit Team)
- Leslie Ashton, CPA (Quality Control Reviewer)
- Lisa R. Collier, CPA (Audit Manager)

Types of Residential Child Care Providers

The Department of Family and Protective Services contracts with the following types of residential child care providers:

- **Foster Family Home (Independent):** An operation that provides care for six or fewer children up to the age of 18 years.
- **Foster Group Homes (Independent):** An operation that personally provides care for 7 to 12 children up to the age of 18 years.
- **Emergency Shelter:** An operation that provides short-term care (fewer than 30 days) for 13 or more children up to the age of 18 years.
- **Operation Providing Basic Child Care:** An operation that provides care for 13 or more children up to the age of 18 years. The care does not include specialized care programs.
- **Residential Treatment Center:** An operation that provides care and treatment for 13 or more emotionally disturbed children up to the age of 18 years.
- **Therapeutic Camp:** An operation that provides a camping program for 13 or more children, ages 13 up to the age of 18 years. It is designed to provide an experiential therapeutic environment for children who cannot function in their home school or community.
- **Operation Serving Children with Mental Retardation:** An operation that provides care for 13 or more children up to the age of 18 years. The children in care are significantly below average in general intellectual functioning and also have deficits in adaptive behavior.
- **Child Placing Agency (CPA):** A person, agency, or organization other than a parent that places or plans for the placement of a child in an adoptive home or other residential care setting.
- **CPA Foster Family Home:** An operation that provides care for six or fewer children, up to the age of 18 years, under the regulation of a CPA.
- **CPA Foster Group Home:** An operation that provides care for 7 to 12 children up to the age of 18 years under the regulation of a CPA.

Criminal Convictions and Other Findings That May Prohibit an Individual from Being Present at a Residential Care Provider

Title 40, Texas Administrative Code, Section 745.611, defines background checks as searches of different databases. There are three types of background checks:

- Criminal history checks conducted by the Department of Public Safety for crimes committed in the state of Texas.
- Criminal history checks conducted by the Federal Bureau of Investigation for crimes committed anywhere in the United States.
- Central registry checks conducted by the Department of Family and Protective Services. The central registry is a database of people who have been found by Child Protective Services, Adult Protective Services, or Licensing to have abused or neglected a child.

Title 40, Texas Administrative Code, Section 745.651, specifies that the following types of criminal convictions may preclude an individual from being present at a residential care provider:

(a) A misdemeanor or felony under Texas Penal Code:

- Title 5 (Offenses Against the Person). Examples of these offenses include criminal homicide, kidnapping and unlawful restraint, trafficking of persons, sexual offenses, and assaultive offenses.
- Title 6 (Offenses Against the Family). Examples of these offenses include prohibited sexual conduct, enticing a child, criminal nonsupport, harboring a runaway child, violation of a protective order or magistrate's order, and sale or purchase of a child.
- Title 7, Chapter 29 (Robbery).
- Title 9, Chapter 43 (Public Indecency), or Title 9, Section 42.072 (Stalking).
- Title 4, Section 15.031 (Criminal Solicitation of a Minor).
- Title 8, Section 38.17 (Failure to Stop or Report Aggravated Sexual Assault of a Child).
- Any like offense under the law of another state or federal law.

(b) A misdemeanor or felony under the Texas Controlled Substances Act, 46.13 (Making a Firearm Accessible to a Child) or Chapter 49 (Intoxication and Alcoholic Beverage Offenses) of Title 10 of the Texas Penal Code, or any

like offense under the law of another state or federal law that the person committed within the past 10 years.

(c) Any other felony under the Texas Penal Code or any like offense under the law of another state or federal law that the person committed within the past 10 years.

(d) Deferred adjudications covering an offense listed in subsections (a)-(c) of this section, if the person has not completed the probation successfully.

Title 40, Texas Administrative Code, Section 745.655, specifies that the following types of central registry findings may preclude an individual from being present at a residential care provider:

- Any sustained finding of child abuse or neglect, including sexual abuse, physical abuse, emotional abuse, physical neglect, neglectful supervision, or medical neglect.
- Any central registry finding of child abuse or neglect (whether sustained or not), where the Department of Family and Protective Services has determined the presence of the person in a child-care operation poses an immediate threat or danger to the health and safety of children.

Title 40, Texas Administrative Code, Section 745.657, specifies that there are three possible consequences of having either a conviction listed in Section 745.651 of the Texas Administrative Code, Title 40, or a central registry finding in Section 745.655 of the Texas Administrative Code, Title 40:

- A person is permanently barred and must not be present at an operation while children are in care.
- A person is temporarily barred and may not be present at an operation while children are in care pending the outcome of the administrative review and due process hearing.
- A person must not be present at a child-care operation while children are in care, unless a risk evaluation is approved.

The Department of Family and Protective Services determines which of the three actions listed above it will take in individual cases. It then notifies the provider regarding the particular actions it will take for specific individuals.

Responses from Alliance Adolescent and Children's Services, Inc.

Summary of Alliance Adolescent & Children's Services Response to State Audit

Chapter 1-A

Recommendation:

The Provider should ensure that it conducts and routinely maintains background checks on its foster care parents and staff in accordance with the Department's requirements.

Providers Response:

We agree with this finding. Several improvements in our system have already been implemented and improved, such as our electronic ability to obtain the checks, our tracking system to monitor and our on-going internal audits which include initial and subsequent background checks.

Chapter 1-B

Recommendation:

The provider should maintain supporting documentation to show that it properly pays the foster families for the same service levels for which it was paid by the Department.

Providers Response:

ACHS agrees to retain all supporting documentation as it relates to the payment to foster parents for specific levels of care.

Chapter 1-C

Recommendation:

The provider should maintain and periodically review documentation to verify that foster care parents and staff have received pre-service training and employee CPR and first aid training as required.

Providers Response:

We agree with this finding. Training will be audited on an on-going basis at least quarterly by the QA staff. Foster Parent training will also be monitored monthly on the Master Status Report by program. Program staff will be trained on proper documentation forms by Sept. 30, 2008 to ensure consistency statewide.

Chapter 1-D

The provider should ensure that it verifies and documents job applicants' professional licenses and work experience prior to employment.

Providers Response:

We agree with this finding. At time of hire we will verify that License and Experience matches the requirements for the position and ensure it is documented in their file prior to employment. Furthermore, we have revised our internal audit to include monitoring and verifying these credentials and experience.

Chapter 1-E

The provider should review the recommendations auditors provided and consider which recommendations are most appropriate for improving the security of its automated systems, applications and data.

Providers Response:

We agree with this finding

1. Access to the general ledger : We have implemented all new responsibilities for both MENTOR and Alliance. During the audit, we were in the transition phase and as of the end of April, the old responsibilities were shut down. No one has access to the manager level account, where new sets of books, etc is set up. If someone needs that access, it will come in via a form, with the appropriate justification and approval. The access is then granted for a specific period of time.
2. Terminated Alliance Employees - Alliance will develop a policy for terminating access to IT when an employee leaves. This policy will require that Alliance notifies MENTOR when an employee leaves so that MENTOR can discontinue that employee's access.
3. Review of Audit Trails - A new process was implemented in March, where as finance now reviews a report showing who entered and posted journal entries.

Responses from Covenant Kids, Inc.



COVENANT KIDS

P.O. Box 173038
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August 19, 2008

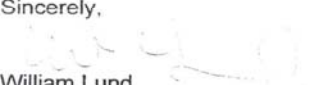
Mr. Cesar Saldivar, CGAP, Project Manager
State Auditor's Office
Robert E. Johnson Building
1501 N. Congress Avenue
Austin, TX 78701

Dear, Mr. Saldivar:

Enclosed you will find Covenant Kids' formal response to the State Auditor's report. Covenant Kids does agree with the findings. The non-compliances addressed in the report were corrected as of our last process change in July 2007. The security system weaknesses were from an off site subcontractor and will be fixed and documented in their contract file.

Covenant Kids continues to monitor systems and processes with a goal of continued improvements to ensure compliance with all governing entities. We appreciate the feedback received from this survey and have already created increased monitoring in the areas of concern.

Sincerely,


William Lund
CEO

- Non-compliance with background checks requirements for foster care parents and staff.

Concur. All background checks not conducted in a timely manner were prior to Covenant Kids process change in July 2007. Internal processes were changed to include ensure timelines are met.

- Non-compliance with staff training requirements.

Concur. All orientation and training not conducted for staff was corrected at the time of survey. Internal processes have been put in place to ensure this is documented in a timely manner.

- Weaknesses in access to and the security environment surrounding automated systems, applications, and data.

Concur. All concerns regarding security systems occurred by an off site subcontractor providing accounting services. This subcontractor has agreed to upgrade their systems to meet all auditors' recommendations and provide Covenant Kids with documentation of improvements. This documentation will be placed in their contract file.

Responses from Hope For Tomorrow

- 1 -

HOPE FOR TOMORROW'S RESPONSE TO THE STATE AUDITOR'S OFFICE (On-site Audits of Residential Child Care Providers)

- **Non-compliance with background check requirements for foster care parents, staff, and sub-contractors. (Chapter 3-A)**

Hope For Tomorrow is in agreement. HFT has corrected this issue. HFT has developed a background check log for all foster parents, staff, and sub-contractors. Each subsequent background check will be ran a month prior to the due date month. Responsible staff for these duties are as follows:

- Each branch location's clinical staff is responsible for all sub-contracted therapist's initial and subsequent background checks.
- Each branch location's Administrative Staff is responsible for the foster parent's subsequent background checks. Foster Family Developers are responsible for the foster parent's initial background checks.
- The Human Resource Clerk is responsible for all employees initial and subsequent background checks.

HFT's Quality Assurance Department and the Executive Director randomly audit these for compliance.

- **Non-compliance with foster care parent training requirements. (Chapter 3-B)**

Hope For Tomorrow is in agreement. Many of the foster parents audited were licensed over 2 or 3 years before the audit period (September 2006 to December 2007). HFT at that time did provide pre-service training, however did not document this training correctly. HFT has corrected this issue. When each new foster parent completes the required training for orientation and pre-service they are documented separately on two different training forms with the total number of hours spent during the training. HFT's Statewide Trainer and Foster Home Developers are responsible for these duties.

- **Non-compliance with personnel file requirements for staff and sub-contractors. (Chapter 3-C)**

Hope For Tomorrow is in agreement. HFT did not have documentation to prove that we called and verified experience and references for employees. However, HFT did and does have 3 letters of written recommendation for each employee in each personnel file. HFT has developed a reference check form that will be used to document all telephone conversations to verify experience and references. This task will be performed by either branch location Child Placement Management Staff or the Human Resource Clerk. This form will be in effect beginning September 1, 2008.

In regards to ensuring sub-contractors licenses are current and maintained in the file, this has been corrected. HFT performs quarterly and six month reviews on each sub-contracted therapist to ensure all information is up to date and that the therapist is fulfilling their job requirements. HFT's Clinical Staff and Treatment Director are responsible for these duties.

- **Weakness in financial processes. (Chapter 3-D)**

Hope For Tomorrow is in agreement. This has been corrected. HFT is now clearly coding and separating out all food, mileage, hotel, and supply receipts which are to be reimbursed to employees on each Reimbursement Report submitted before sending to HFT's Independent Certified Public Accountant for processing. Human Resource Clerk and the Chief Financial Officer are responsible for these duties.

- **Weakness in access to and the security environment surrounding automated systems, applications, and data. (Chapter 3-E)**

Hope For Tomorrow is in agreement. HFT is reviewing and considering the recommendations presented by the auditors for improving the security of its automated systems, applications, and data. In the following areas:

- Information system policies and procedures

- System Security

- System backup and recovery

To minimize the risks associated with public disclosure Hope For Tomorrow will not disclose in detail the changes made. However, there have been some changes made that correspond with the auditor's suggestions as well as HFT planning to make more changes as funds are available to upgrade all of our systems. The projected date of completion of all changes is December 2009.

Responses from Panhandle Assessment Center Child Placing Agency

Panhandle Assessment Center Child Placing Agency

Chapter 4-A

The Provider Should Consistently Conduct and Maintain Background Checks for Foster Care Parents, Staff, and Subcontractors

PAC is in agreement that the audit pointed out that PAC CPA was missing a few criminal histories. Those missing criminal histories were run immediately upon being notified that they were missing, and were provided to SAO staff the next day after their receipt.

Correction:

PAC CPA will make every effort to conduct background checks on staff, subcontracted therapists, and foster care parents prior to contracting/employing them and every two years after their hire date, per minimum standards.

The Administrative Assistant at PAC CPA has been instructed to run criminal background checks immediately upon being told by a PAC Administrator that a person is to be hired. Their criminal histories will be placed in their file upon receipt. If the applicant has a criminal history, the "Operation Action" sheet will be placed in the file after being submitted to RCCL wherein the person has been hired or not as well as what the agency will do to rectify the person's ability to work in the agency.

Chapter 4-B

The Provider Should Strengthen Financial Processes and Improve its Approval and Documentation Processes for Food, Credit Card, Clothing, Shelter, and Travel Expenditures

Corrections:

PAC is in agreement that the agency was missing some receipts and that each receipt was not spread and coded in enough detail. See attached Credit Card Policy. All staff have been reminded to turn in receipts each time a credit card purchase is made.

All staff involved in making purchases for PAC have been instructed to turn in receipts each time they make a purchase. Those receipts will be given to the Office Manager for coding to the proper accounting line item. Staff has been informed via an all staff memo that requires them to turn in receipts and be reimbursed during the same fiscal year the expense occurs to avoid reimbursements being made during a different contract year.

The PAC Office Manager has created a new form to use for splitting all receipts into various types of expenditures, e.g. each Walmart (and all other receipts) receipt will be broken down into "food", "hygiene items", "cleaning supplies" or other accounting categories.

Panhandle Assessment Center Child Placing Agency

PAC CPA will increase efforts to ensure that all travel requests are signed off for approval by the proper staff and/or administrator .

The Office Manager is seeking advice from the Certified Public Accountant as to how to give sufficient detail about expenditures to most accurately include all expenses in the cost reports. All recommendations made by the SAO and the CPA firm being used by PAC CPA have been implemented as suggestions have been made.

PAC CPA has already implemented procedures that were recommended by State Auditors while they were on site with regard to coding expenditures to the proper accounts. The PAC Office Manager has already started separating categories on lengthy purchase receipts and has created a new form to code expenses to the correct account.

Chapter 4-C

The Provider Should Consistently Verify the Education and Experience of Prospective Employees

Corrections:

PAC is in agreement that some staff education was not verified and documented. PAC CPA will check and document verification of staff's education and experience. This will be done by calling references as listed on the person's application and by making a copy of the person's diploma or Graduate Equivalency Diploma.

Chapter 4-D

The Provider Should Make Improvements to Address Weaknesses In Access To And The Security Environment Surrounding Automated Systems, Applications, and Data.

Corrections:

PAC is in agreement that technology is so new to this type of business it is difficult to know how to ensure security. The advice and recommendations given by the SAO were implemented while they were on site and/or have been implemented since the audit, Many of the IT problems have been eliminated by the fact that PAC has implemented a software package that is encrypted, remotely hosted, and is backed up both, by an in-house server and also by an off-site dedicated server.

Responses from the Willie C. McDuffie Treatment Center

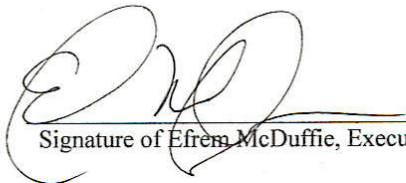


117 West Hamilton St., Houston, Texas 77076 Phone: (713) 694-4121

August 21, 2008

Mr. Saldivar,

After carefully reviewing the draft, we have decided to implement the recommendations that you requested in our system. We appreciate your professional in-site on this matter and will proceed in fulfilling these recommendations.



Signature of Efreem McDuffie, Executive Director

8-21-08
Date

Related State Auditor's Office Work

Related SAO Work		
Number	Product Name	Release Date
07-044	A Report on On-site Audits of Residential Child Care Providers	August 2007
07-030	An Audit Report on Residential Child Care Contract Management at the Department of Family and Protective Services	April 2007
07-002	A Report on On-Site Audits of Residential Child Care Providers	October 2006

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The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Health and Human Services Commission

Mr. Albert Hawkins, Executive Commissioner

Department of Family and Protective Services

Mr. Carey Cockerell, Commissioner

Board Members and Executive Directors of the Following Providers Audited

Alliance Adolescent and Children’s Services, Inc.
Covenant Kids, Inc.
Hope for Tomorrow
Panhandle Assessment Center Child Placing Agency
Willie C. McDuffie Treatment Center



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